THE IMPERIAL DOLLAR

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FOREWORD

This book, although a narrative, is not a history. I have chosen certain events which seem aptly to illustrate the development and conflict of the forces moulding the American empire, and dwelt on them to the partial or complete neglect of others. There are numerous works, a very few of which I have mentioned, which treat in detail the episodes which I pass over.

Nor is this volume a work of reference. I have preferred not to cumber the narrative with footnotes, but to place in notes at the end of the volume various data supporting my statements, as well as certain comments and reservations. Detailed reference to all the sources from which any story of American imperialism is derived is not essential. Let me only say that the vast and patient labor of innumerable scholars, of statisticians of some of the larger banks, of the staffs of such societies as the Council on Foreign Relations, the Foreign Policy Association, and especially of the United States Department of Commerce, has placed at the disposal of the student an enormous mass of admirably organized data. To all these, en bloc, *I acknowledge my indebtedness.*

H. M.

New York City.
July 1929.

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THE IMPERIAL DOLLAR

CHAPTER I

THE DOLLAR THRUSTS OUTWARD

"WE saw nothing in the land of much profit, except some show of gold . . . but in so far as concerns the situation and condition of the land it could not be better."

This, from the letter of Amerigo Vespucci to the Gonfaloniere Pietro Soderini of Venice, is perhaps the first eye-witness description of the North American continent which has been preserved. To the explorer nurtured in the exquisite civilization of the Italian Renaissance, the visit was but an adventure into barbarism. He related that the Americans gave their callers a handful of pearls in return for a tinkling bell, and gold for nothing—a function which many Europeans seem to consider proper to Americans to this day.

Some four centuries after Vespucci's visit, the larger part of the arable portion of the North American continent had been colonized and nationalized under the name of The United States of America; and had been brought to a state of economic maturity, in the sense that all the profitable land had been settled and an adequate capital equipment had been accumulated for its orderly exploitation. In other words, America was ready to be an ac-

tive, instead of merely a passive, element in world history.

But the extraordinary fact about this process was that almost all of it was compassed within the last quarter of that period. Three centuries after the Vespucci cruise civilized America comprised little more than a strip of territory a hundred miles inland from the Atlantic coast. Beyond that all was aboriginal forest, save for a military stockade or a frightened trading settlement scattered here and there throughout the vast domain. The process of effective colonization was hardly begun. In the succeeding century, and especially in the latter half of it, ten times more was achieved, quantitatively speaking, than in the three preceding.

The reason for this extraordinary historic spurt is contained in two words: the machine. The common jibe that America is "machine-made" is historically true. Obviously, it was the railroad which permitted the rapid colonization of untouched land and the transportation of building materials and tools; and the telegraph which permitted the building of a vast political unit on a loose federative basis. But the machine, besides furnishing the means, supplied the motive; it was the industrialization of Western Europe and its sudden need for greatly increased supplies of food and raw materials which made it economically feasible for armies of pioneers to plunge into the wilderness. And most important of all, perhaps, it was the surplus capital, accumulated in Europe as the result of machine economy, which financed the colonization.

The machine age is rightly distinguished from all ages

preceding and regarded as a modern creation. Tools man has always had; they have enabled him to make things which he could not make before, or to make them better. But tools are essentially hand-utensils; they are man-driven. The machine enables man to make things faster than he could make them before, because they are power-driven. The lost devices by which the huge stones of Pharaoh's pyramid were hoisted into place were doubtless complex and ingenious; but they were still but gigantic tools, for they were man-driven. They could supply precisely as many units of man-power as there were men to drive them. To accomplish more work it was necessary to get more men.

But the machine, driven by the natural powers of steam or oil or electricity, was dependent on man not for its energy, but only for its guidance. The machine could multiply the productive power of man many times over. The decisive difference between the machine age and all the tool ages which preceded it was this: that whereas in any tool age the quantity of commodities which could be produced was rigidly limited by the number of human beings available to produce them, in the machine age the potential quantity was infinite.

In the flourishing periods of antiquity, the production of necessities was based on the slave: a relatively few freemen prospered on the labor of human tools propelled by flesh and blood. In the machine age, man prospered on the labor of slaves of steel propelled by coal and oil. Each worker's own productive power was multiplied

many times over. In America in the twentieth century every workman had forty mechanical men, or four horsepower at his command, as Ambassador Houghton put it, "for he has $6,000 capital in machinery."

But the machine in its infancy was as unreasonable and intractable as any other infant. It childishly snatched and broke the house furnishings so patiently fashioned by previous ages. It threw armies of workers out of employment. It cast thousands of cotton shirts on a market that was unprepared to buy them. It inaugurated an epoch of wage slavery more horrible than the chattel slavery of barbarian times. The machine was paid a high salary, while the man who ran it received a starvation wage. And just here the infant machine was obliged to make its first important adjustment to the adult world. For the highly paid machine was not a consumer, while the underpaid worker was. Unless the worker was paid enough to permit him to buy the multiplying product of the machine, the machine was useless in a human society. To multiply the objects of human consumption without distributing them among human consumers was an exercise as wasteful and meaningless as that of a white mouse running in its revolving cage.

The gradual adjustment of real wages to correspond to the productive capacity of the machine was one of the two or three major economic processes of the nineteenth century. By the opening of the twentieth, real wages, in highly developed industrial countries, were substantially higher than a century before; at the same time the ma-

chine had effected a vast specialization of labor and had spewed forth its surplus products into distant lands, creating what has come to be known as financial imperialism. The machine was on the eve of its maturity.

And it happened, by one of those coincidences which sometimes determine the direction of world history, that at this moment the United States of America had attained its economic majority.

The Machine Grows Up

In the early twentieth century the United States seized the leadership of the machine age. The two had grown up together. Unquestionably the opening of the Ford automobile factory in Detroit will be one of the permanent "dating points" in history, equal in significance to Hargreaves' invention of the spinning jenny. For here the dual strategy of the mature machine was first concretely dramatized. On the one hand the machine was scientifically utilized to attain maximum production; and on the other, the worker was deliberately "overpaid" to permit him to buy back his product. Low cost was coupled with high wages. Mass production (or more properly standardized manufacture) was clearly recognized as necessarily implying mass distribution.

Within two decades this dual strategy of the machine had been pretty generally recognized as the true one throughout the United States. The American wage

scale and the American standard of living had become definitely and substantially higher than those anywhere else on earth. The American industrial worker received almost twice as much wages, in real purchasing power, as his comrade in England, and from three to four times as much as was paid in other industrial nations. Yet far from impoverishing industry, such wages provided a definite and apparently inexhaustible stimulus to production. Many an old economic "law" went to the scrap heap in this period, such as the revered "iron law of wages" and the "quantity theory of money." For the first time in the entire economic history of the human race, it could be soberly said that there was no visible or forseeable limit to the prosperity of the common man. The more the machine was permitted to make things for man, the more cheaply it could make them. The more cheaply it could make them, the more it was asked to make. To "overpay" and "underwork" the laborer began to be a definite part of economic strategy. For the first time "overproduction," which had been the evil spirit haunting the machine from its birth, began to come under control. The machine, after a century and a half of growing up, was at last permitted, in the United States, to go full steam ahead.

This fact was obviously of considerable importance to the American workman, who began to own his home, his motor car, and his radio, to have his own bank account and even his own stock broker. But in another way it was of profound importance to world history. For, just because of this widespread purchasing power, it was in

America that the machine age was first permitted to do its utmost. It was in America that the machine was encouraged to produce that superfluity of goods, and consequently of financial credit, that forced American imperialism on the world.

The special reasons which permitted America to assume leadership of the machine age were various, but the principal ones were fairly evident. Unquestionably the native energy and adaptability of the American character had something to do with it. The great variety and abundance of minerals and other raw materials fed the machine without stint. But probably the decisive factor was the enormous size of the American internal market, unhampered by customs boundaries, which permitted the machine in America to attain a high degree of quantity production with consequent cheapness per unit. Solidly based on the home market, American industry could send its products abroad on competitive terms, regardless of the fact (indeed, just because of the fact) that the American wage scale was two or three, or even five times as high as that abroad.

Once American industry had gained this lead, it became increasingly difficult for Europe to keep pace. For the size of the home market permitted America to produce at a cost with which Europe could not easily compete save by diminishing wages, and hence tending to restrict its own market and consequently to forego the benefits of quantity production. The situation became truly tragic for old Europe. America, now certain of

being able to sell the huge volume of goods produced, could go to the utmost in industrial efficiency, by means of Taylor systems, mechanization of labor, elimination of waste and all those methods which Europeans group under the term "rationalization of industry." But Europe, at the same time, dared not "rationalize," save with caution, for each improvement in industrial method threw just so many workers out of employment. American industry, steadily expanding, could absorb the natural increase in population and arbitrarily limit the rhythm of immigration to the rhythm of business. Europe, impoverished by the War and without capital reserves, was obliged to see those foreign markets, so essential to the success of "rationalization," captured by America. The dilemma was deadly. To cheapen the product, it was necessary to throw men out of work and hence cripple the market. To sustain the market it was neccessary to maintain a high labor cost of production. But this vicious circle became in America a kind of fly-wheel revolving by its own energy—the nearest thing to perpetual motion which economics has yet discovered.

"When industry gets into a jam, raise wages arbitrarily"—something like this is the formula of present-day American prosperity. It is needless to add that America does not apply the formula consistently. The agricultural industry is in a chronic condition of under-remuneration. Other major industries, like those producing coal and textiles, are in a precarious state and labor conditions in them are, in many instances, abominable. Concurrently

(perhaps consequently?) American industry and finance are showing unhealthy symptoms. But America knows now that there is a way out of such jams; it knows that by deliberately increasing purchasing power it can increase general prosperity. And there is as yet no known limit to the extent to which, in America, this formula can be applied and re-applied to solve the recurrent problems of the industrial cycle.

Not, however, in Europe. And that is Europe's tragedy. Europe has not dared to adopt without reserve the strategy of the machine age. When in the machine-manufacturing industry the average American worker produces $5,200 of value per year compared with some $1,500 in England and Germany; when in the decade following the World War the output in this industry fell 20% per man employed in England and 40% in Germany, while in America the per capita output of workers in all industries increased 53.5%; it was evident that command of the modern era had definitely crossed the Atlantic.

What the War Did

The War hastened and dramatized the inevitable process. It dated the beginning of American world-leadership 1916, instead of, say, 1935 or 1945. This for two reasons: it stimulated the American productive plant to the utmost and thus established an industrial rhythm beyond anything the world had known; and it depleted the

capital reserves of Europe by an amount which might be estimated at 20% to 25%.

This is not to say that America made money by the War. No nation can make money by war, although a few individuals may. War is specifically an organized effort to destroy wealth and wealth-producing human life; it is absurd to suppose that it can create wealth for a nation. America definitely lost money by the War. But for America the War was too short to eat noticeably into her capital reserves. And the intensified rhythm of production to which the war accustomed America, became, after the armistice, an item of clear gain. Meanwhile, her chief industrial rivals had been crippled. Although the decade of war and reconstruction did not increase American wealth in any sensational degree, it enhanced America's *relative* position in the world to the point of absolute and uncontested primacy. And it fixed for America a *rate of increase* in wealth production which her crippled rivals could never again hope to attain. In short, it placed in American hands every element required to command the machine age.

It is the passion of the machine to want to produce more than enough. For as soon as it has produced enough for the market it sees the opportunity of producing more cheaply and profitably if only the market can be enlarged. So once the machine age had struck its stride in America, it necessarily sought to over-produce and ship its products to the ends of the earth. True, America had been exporting for four decades, sending abroad far more

than it received from abroad. But that was in payment of debts. When, in 1916 the United States became a creditor instead of a debtor to the world, this excess of exports became an entirely different matter. It signified not merely an increase in productive capacity, but an entirely new relation between America and the rest of the world.

America, from this moment, was no longer just a punctual debtor, but an aggressive salesman and economic colonizer of the world. The machine, exhilarated by the war rhythm, now seized the markets which the War had compelled Europe to neglect.

On every front the dollar, symbol of the wealth daily produced in American factories and on American farms, was thrusting outward. After satisfying, more generously than ever before, the wants of the home population, the American productive plant still had huge quantities of goods for sale abroad. The achievement of the United States in sending abroad, within the space of fifteen years, twenty-five thousand million dollars worth of goods on credit, is without parallel in history.

Yet this continued after the War as a normal function of the well-oiled machine. Each year Americans subscribed from half a billion to a billion and a half dollars for investment abroad.

Nor was this investment merely a financial operation. The export of capital goes hand in hand with the export of goods. What in Wall Street is called an "investment," is in the factory called "export financed by American

banks." Virtually all the money loaned by America to the outside world represented an equivalent value of American goods sent abroad on deferred payments. The export of goods and the export of capital are not even two concurrent processes; they are two aspects of the same process. The growth of American credits against the outside world was merely a measure of America's superproduction of valuable goods.

By the third decade of the twentieth century the American dollar had become a citizen of the world.

The American Empire

This outward thrust of dollar-goods was the very substance of the American empire which began to take shape in the early part of the twentieth century. For the outstanding financial reservoir in the mature machine age was, as has been said, necessarily America.

Wherever America had substantial investments—that is, wherever America had exported large quantities of surplus goods on credit—there America exercised a measure of that kind of dominion which in the machine age meant empire.

Such empire might assume any number of guises. It might appear as direct financial control over governments or banks of issue; or as superior naval power; or as ability to manipulate foreign political parties and finance revolutions; or as charity to the starving; or as power to effect

large-scale economic readjustments; or as power to dictate favorable customs tariffs; or as control of foreign film entertainments and consequent ability to spread American ideas and standards; or as ability to purchase art works and hire artists; or as that invisible, pervading power called prestige. But wherever dollar-goods penetrated, and whatever form they might locally assume, they constituted some element in the fabric of the coming American empire.

In short, the American empire which built its foundations in the three decades following the Spanish-American war was not the work of imperialists. It was the work of the machine, grinding out wealth in a frenzy of newly discovered vigor. One might almost say that it was a blind force of nature. It was not the politician who guided the process; at almost every single step, the politician looked on puzzled and half-helpless, often resorting to some panic-stricken measure which only placed an obstacle in the path of empire.

For the American people did not know what was taking place. They still pictured America as an economic and cultural colony of Europe, to be protected against the craft or might of an older civilization. They still thought of their relations with the outside world in terms of the War of 1812. Long a dutiful debtor of the old world, and then for a space the truculent martinet of the new, they emerged into an era of world power with the mental equipment of an adolescent. They were glad to accept any adventure save that of responsibility. With the physical

vigor of the buck private, they were suddenly called upon to exercise the judgment and strategy of the general.

The machine gave America an empire. Americans must decide what to do with it.

CHAPTER II

DEBTOR ANTI-IMPERIALISM

IN 1789, the year which saw the adoption of the Constitution of the United States, one Samuel Slater, Esquire, came to America with something in his head. It was the germ of the constitution of the modern world. Slater had memorized the essential elements of Hargreaves' and Arkwright's textile inventions and the mode of hitching them to Watt's newly developed steam engine. These inventions, kept secret in England, constituted the first practicable application of power to manufacturing machinery, and the seed of machine production which has in a century and a half built a new society. These Slater planted in the new world.

It is one of those coincidences which shape history, that while the industrial revolution was ripening in the old world the American revolution was ripening in the new. All unconsciously, Washington was collaborating with Hargreaves and Arkwright and Watt. While they were creating the modern machine, he was creating the terrain on which it would eventually be free to function to the utmost of its capacity. The two revolutions were destined to merge into one great process, the process today known as Americanism.

If the machine is to produce most abundantly and cheaply, it must operate on a very broad base, with unimpeded access to a great wealth and variety of raw materials and to a very extensive and prosperous market. The American Constitution provided the political foundation for such a basis—the richest portion of North America, extending from ocean to ocean, free of customs and political obstructions. In Europe, the machine flourished mightily in its youth. But when it grew larger, and needed unimpeded supplies of food from everywhere, and unhampered market routes in all corners of the globe, it found its operations crippled by arbitrary political boundaries, tariff walls, preferences and embargoes, special concessions, racial prejudices and often wars. It found, for example, two of its essential raw materials, such as iron and coal, on opposite sides of a national boundary line, with tariffs preventing the natural flow either way. It found another of its materials, cotton, cut off from it for years because of a domestic war thousands of miles away. It found one of its great markets, India, boycotting it over questions of color, religion and political manners. The machine grew weary. Europe, it felt, was satisfactory enough as an incubator. But it was not the place for a fully grown machine economy which took the whole world as its province.

The United States of America offered the nearest approach to the machine's universal homeland. It was a land abounding in coal and iron, copper and cotton and

oil, and most of the other things on which the machine feeds. It presently contained a population of a hundred million people, skilled and highly paid, abundantly able to buy its products. And in this whole region there was nothing to discourage its most reckless dreams. Here was the land which Europe might have been had it comprised Great Britain, France, Germany, Spain, Italy, Scandinavia, Austria-Hungary and Russia, all speaking one language and comprised within a single customs union. The United States was, to the machine, not quite as good as the entire world, but the nearest conceivable approximation to it.

The first century of American national existence may be regarded as a preparation of the field to receive the full-grown machine. This century was spent in acquiring and clearing the ground westward for three thousand miles, in laying down communications, and above all in breeding a population which the machine might serve.

The characteristic figure of this century of pioneering was not the city lawyer or clerk who so riled Dickens by delivering Fourth of July orations at breakfast, but the frontier farmer, buying cheap uncultivated land from the government, clearing the timber himself and siring sons to help him, borrowing a few hundred dollars from the local money-lender to buy more land and paying back the debt ten dollars at a time as each new acre was brought under cultivation. It was he who gave to nineteenth century America the physiognomy of its culture,

and it was the conditions of his struggle which fixed the national policies up to the time when the machine drove America on to the road of empire.

This man is by the nature of his task a debtor. He has the debtor's psychology. Instinctively he says to the world beyond his farm: "You leave me alone and I will leave you alone. So long as I pay my debts, what I do is none of your business." He feels the inferiority of the debtor, together with the superiority of the strong man who by his own efforts is on his way to wealth. He is instinctively on the defensive against the rich man who might call the mortgage on his farm; and at the same time he knows it is perilous to encroach on the farm of his neighbor. But all the time he has his eye on that new land just over the fence to the west, and he intends to take up the claim as soon as he is sure he can finance and defend it. Once a year he will take his wheat to the mill, many miles away, to be ground and sold. That is his only contact with the great world outside. He is unsure of himself in this venture into the unknown; hence he is suspicious, and woe to the man who tries to cheat or block him.

The United States, throughout the greater part of the nineteenth century, was such a frontier farmer. She was constantly borrowing money to develop new land and jealously guarding the avenues by which the debt might be repaid, because repayment was the door to wealth and to freedom.

"Leave me alone and I will leave you alone"—this was the emotional substance of her national policy. It is es-

sentially the mood of anti-imperialism. It does not desire to interfere with its neighbors: it has all it can do to clear its own farm. But it is almost pathologically suspicious of interference. So intense was this feeling that it had even been willing to personify itself, on the flag of one of the colonies, as a snake with the motto: "Don't tread on me."

But this anti-imperialism was by no means unaggressive. Quite the contrary. It always had its eye on that new land just west of the fence. It had no desire to steal another man's farm, but it firmly intended to stake out the new claim and add it to its domain. The real imperialist of the frontier was the money-lender who might hope to acquire land by foreclosing a mortgage; the pioneer farmer, although equally greedy, was a nationalist. He did not desire to dominate, but to annex and develop. This distinction must be borne in mind throughout the course of American history. The United States, which throughout the first century of her national existence was busy annexing French, Spanish, Mexican and English territory, was not imperialist, but strictly and aggressively nationalist.

The Revolt Against Mercantilist Imperialism

The American Revolution was primarily a revolt against imperialism in the form in which it was expressing itself in the British empire of the time—that of mer-

cantilism. The mercantilist nation seeks to utilize its political power in order to get the best of every bargain; it uses trade restrictions or licenses, tariffs or bounties, to insure that it shall sell more than it buys, or buy more cheaply than it sells, or monopolize trade in its own ships or through its own entrepots.

The British parliament, in an effort to retain certain monopolies for British shipping, had forbade the export of certain commodities from the colonies except to Great Britain or her dominions, and imposed the import of certain British goods to the exclusion of competitors' wares. Such "cutting off our trade with all parts of the world," as the Declaration of Independence put it, was a major cause of the American Revolution. But with independence attained, the struggle still continued. The British government, after recognizing American independence, sternly limited the articles which might be imported from the United States. All such artificial restrictions upon the American's freedom of trade made it difficult for him to pay for the things which he needed to import to build up his pioneer farm.

This struggle against mercantile-imperialism gave the tone to American foreign policy for the entire first century of the nation's existence. The burden of America's diplomatic activity was: an equal chance for the young pioneer with the rich lords of the earth. Imperialism was the foe to be resisted. The United States asked no favors —well knowing that none would be granted. But she

demanded equal treatment, and the consequent struggle nurtured a conviction, which persisted for decades, that foreign nations were incurably meddlesome and oppressive; that the less she had to do with them the better.

From this mood grew the policy of *Isolation* or Leave Me Alone. "Keep what is yours," said John Quincy Adams to Stratford Canning, *"but leave the rest of this continent to us."* It was the perfect expression of the feeling of the pioneer farmer with one eye on his neighbor's dogs, and the other on the free land to the west.

The repugnance to "entangling alliances" was the dominant emotional conviction derived from the Revolution. "Our business with them [the European nations] and theirs with us is commerce, not politics, much less war," said John Adams. He thought the United States should maintain no permanent diplomatic relations with any foreign nation. And Jefferson felt that "we should stand with respect to Europe precisely on the footing of China."

But the new nation had no intention, of course, of being isolated in respect to commerce. Its sailing vessels already had a world-wide reputation for speed and reliability, and the commodities which they carried, cotton and tobacco and textiles, and even ice, had a wide sale. But these ships were constantly subject to seizure—by the Barbary pirates in the Mediterranean, or by those other pirates (as it seemed), the French and English, on the high

seas. Throughout the quarter century of the Napoleonic wars American ships could never be sure what would happen to them.

From this condition was derived the second of the traditional policies of the United States—the *Freedom of the Seas.* The United States, renouncing the entangling alliances of Europe, wished likewise to escape the consequences of such alliances. Her ships were free of political complexion, and the goods which they carried ought therefore to be free to be delivered to customers anywhere in the world. "Free ships," America maintained for a century and a half (with the exception of one period), "make free goods." And in order to defend this principle derived from the doctrine of *Isolation,* the United States abandoned her isolation and became engaged in a European war. A century later she became involved in another European war in defense of the same isolationist principle. And in both cases she signed a treaty of peace which did not settle, or even mention, the point at issue.

America's struggle against mercantilist imperialism generated a third policy which persisted until after the World War. Faced with nations which placed arbitrary restrictions upon exports and imports in the territories which they controlled, the young and aggressive trading country grasped the only weapon at hand to secure equal entry into foreign ports. It established the policy of *Reciprocity.* It fixed the rule that it would close its ports to those who refused to open their ports to it. In a world bristling with restrictions against the young and weak

nation, it felt that it must bargain for each advantage which it might desire. It was not strong enough to say: "These are my terms; take them or leave them." But it said to the world: "I will give you an equivalent favor for each favor you give me."

For more than half a century after the establishment of the American commonwealth, until the discredited mercantilist system evaporated, this fight continued. Then the practice of fixing arbitrary trade barriers vanished for a time from the civilized commercial world. But the method of individual bargaining, through the instrumentality of tariffs, continued to be an American policy until 1922, although with constantly diminishing success.[1]

The Monroe Doctrine

For almost half a century after the Declaration of Independence, *Isolation,* the *Freedom of the Seas* and *Reciprocity* were the only outstanding principles of American foreign policy. The entire energy of the nation was concentrated on obtaining and colonizing further land to the west.

But meanwhile in Europe there had been formed a

[1] "The former policy of the United States of seeking special concessions for entering the markets of the undeveloped countries of the American hemisphere has. . . . given way to a policy of seeking equal treatment in all of the markets of the world." Benjamin H. Williams, Economic Foreign Policy of the United States (McGraw-Hill Book Company, 1929).

league of nations which sought to embrace the entire world within its own particular doctrine of right and justice. The Holy Alliance, asserting the divine right of kings and the crime of self-determination of peoples, threatened to coerce the newly established South American republics, which had rebelled against Spain. Instinctively the United States resented this pretension and formulated her negative doctrine of isolation into a positive defensive policy. In the *Monroe Doctrine* she put on record her lasting opposition to the further colonization of the Americas by any European power and to any extension of their system (monarchy or autocracy) to the western hemisphere. What the United States could have done about it, had Great Britain supported the Holy Alliance, is not clear. But fortunately Great Britain, in pursuance of her traditional policy of opposing united action by the powers of the continent, supported Monroe. Thus was established the fourth of the policies by which the pioneer nation sought to protect itself from interference by others while it was preparing the ground for the maturing machine.

The Mexican War was termed imperialistic by Webster and other New Englanders, but its motive was as nationalistic as was Jefferson's purchase of Louisiana. Empire was something which America could not think of (although there were Americans even then who had the imperialistic mentality). It was enlargement of the national domain, not dominion over others, which Americans were striving for in this period of expansion.

For indeed, America's material relations with Europe were of the most casual and intermittent sort for three quarters of a century. From the close of the Revolution until nearly the middle of the nineteenth century, the United States imported a healthy surplus of goods from foreign lands beyond what she exported, paying the difference mainly with the profits earned by her ships. Despite all maritime difficulties, the period of the Napoleonic wars was profitable, and by 1809 the national debt had been extinguished. After Waterloo began a "wild boom," and from 1821 until the panic of 1837 there was a great increase in exports. Once this world depression had been liquidated, America began to attract the attention of foreign investors.

But the Mexican War, which had brought the confines of the United States to the Pacific Ocean, inaugurated an era in which America began to be an integral part of the world. The extension of its boundaries was an invitation to the world for immigrants. Vast potential wealth had suddenly been acquired, needing myriads of men to exploit it.

Hence *Free Immigration* became the fifth of the American foreign policies (although technically regarded as a domestic policy because it is a consequence of home legislation). All immigrants were welcome, without other guarantees than that they would not become a charge on the community, nor import strange doctrines or strange diseases.

This sudden need for immigration coincided with two

conditions in Europe which favored it. The potato famine in Ireland and the failure of the revolution in Germany made life unbearable for hundreds of thousands of farmers in the former country and intellectuals and artisans in the latter. Immigration into the United States jumped from 84,000 in 1840 to 370,000 in 1850.

America as Debtor

But immigration of men is a disadvantage rather than an advantage unless there is capital to set them up in shops or farms, and to maintain them and their families until they become productive. America had no surplus capital with which to stake these hundreds of thousands of strangers. What made their immigration feasible and welcome was that they brought their capital with them. Not to any great extent, of course, in their own pockets; for they had been largely impoverished by famine or revolution. But their very presence and their labor increased the capitalizable value of the continent. As new producers and consumers they justified the investment of new money in the United States. Capital began to follow speedily.

Now it happened that just at this time Europe began to have a volume of liquid wealth which it could invest abroad. It had at last recovered from the devastation of the Napoleonic wars. And its railway system had become fairly general and connected, making its savings mobile.

In the period 1843–53 some $75 million of new money brought the net foreign investments in the new world up to $222 million.

Thus, as a result of the Mexican War and the extension of United States sovereignty to the Pacific, began what economists call the "first period" in the economic foreign relations of a young nation. This is the borrowing period, in which goods are imported, in excess of what are exported, to provide capital equipment. No longer was the merchant marine the main factor in settling the trade balance (indeed, within a few years it virtually disappeared from foreign trade). The main factor became the capital borrowings from Europe. In the period from 1850–73 the United States imported goods to the value of more than one and a half billion dollars more than she exported. This net import was the capital with which America built the foundations of its present industrial plant.

The great function of the Civil War, as seen from this distance, was that it preserved the broad production base for which Washington had laid the foundation. Lincoln, with his mystic belief in the indissolubility of the Union, had doubtless in mind the necessity of averting the political evils which would follow secession—the incessant quarreling of two neighboring nations, the probability that European powers would intrigue with each against the other, and perhaps the perils of new wars on the American continent. But he was also, although he could not have been aware of it, redeeming the prom-

ise that Washington had in effect made to Samuel Slater, Esquire. He was preserving to the world the terrain in which the machine would have unhampered opportunity to do its utmost for the men of a new era.

The new unity of this vast tariff-less domain was symbolized by the completion of the Union Pacific railway in 1866. Europe quickly grasped the significance of this event. In the closing years of the Civil War and the years immediately following, half a billion dollars had been invested in the United States, bringing the total to $700 million. Steel rails poured into America from English rolling mills. In the eight years following the close of the War the railroad mileage of the nation doubled. American rails were thereafter among the favorites of the European stock exchanges. Fully three quarters of the foreign capital invested in America was put into railways, and at one time three quarters of the railway stock in America was held abroad.

But there came the period in which America's interest payments to the outside world counterbalanced its imports of capital. The dividing line between this and the net import period came rather sharply with the panic of 1873. By this time foreign capital invested in America had attained the surprising level of one and a half billion dollars, and interest payments amounted to $90 million. Capital investments began to pick up again after the end of the panic in 1879, but they never again equaled in volume the outward-going interest payments. For the period 1874–95 the total interest paid is estimated at $1,870 mil-

lion and the total of new capital imported at one billion.

This debt to Europe and the necessary mode of its payment dominated American foreign relations through the latter half of the nineteenth century. The relation between the two continents was smooth and simple. Europe needed wheat and cotton; America produced a surplus of both. To pay interest on her borrowings the United States sent wheat and cotton to Europe. In the earlier years of this period agricultural exports formed from three quarters to four fifths of the total. Between 1870 and 1890 one third of her wheat crop and two thirds of her cotton crop was sent abroad.

For some decades after the Civil War this excess of exports over imports amounted to more than $100 million annually. By 1900 it had jumped to a quarter of a billion dollars. An increasing portion of this excess represented the remittances of European immigrants to the old country and the expenditures of Americans tourists in Europe. The very large remainder, however, represented the service of the American debt.

The United States was to Europe a wheat and cotton debtor. Europe was to the United States a fair and ready banker. The American food exports had played a major part in sustaining the swollen population of industrialized Europe, permitting it to grow far beyond the capacity of the local soil to nourish it, and indeed made possible its industrialization. European capital exports now made possible the rapid industrialization of America by supplying the needed manufactured goods and machines on

credit. The two continents were by this time integral parts of one system.

But they did not know it. Europe looked on America as a colony—as indeed in an economic sense it was. America had fewer and less lively political relations with Europe in the thirty years following the Civil War than in the thirty years preceding it. The increase in the American foreign debt had intensified the debtor psychology of isolation.

But, curiously enough, the consequences of this indebtedness were a point of pride with Americans. They called the excess of exports over imports a "favorable trade balance." For America was selling more than it was buying. From another point of view it might be said that America was giving more than it was receiving. But these are only words. The fact was that America, because of its foreign indebtedness, was obliged to produce more than it consumed. The rhythm of superproduction was established.

Apart from this, America's relations with the outside world seemed of little importance. America had no primary interest save in paying off the mortgage on the old farm.

It had become almost indifferent to the United States what Sea Law might be, for she had virtually no international merchant marine. It was almost indifferent to her what the Law of War might be, for she had virtually no navy. "The fleet which President Garfield reviewed (in 1881) comprised the best dozen vessels in the navy at

that time; they were all built of wood, and included not only the side-wheel Powhatan, a relic of the 'forties, but also the ancient frigate Constitution." The Chilean navy, if properly handled, could have defeated this fleet. Clearly, if the United States had stood "precisely on the footing of China," she could hardly have been more completely wrapped in isolation.

To protect this isolation she erected the famous "Chinese wall" of the tariff. Previous to the Civil War, American tariff policy had vacillated, but the later tendency was toward low duties. After the War, when the American industrial plant was hugely capitalized, the entire nation seemed to become an infant industry. The free-trade southern planter had little to say. In her isolation, the United States could afford the risk of a tariff which would raise the American cost of living and standard of wages far above that of Europe. For her new industry was not competing with Europe; America's exports were overwhelmingly agricultural. With cheap raw materials but a shortage of skilled workers, it was natural that labor should be highly paid, and the tariff only accentuated this tendency. There were economists to predict that as soon as America should be obliged to compete with the outside world in industrial products, she would pay dearly for her selfish tariff. But the cost of labor forced the employer to get the utmost out of it by means of efficiency systems, and to supplement it by machinery wherever possible. And when the time for open competition did come, the miracle of the machine began to

happen: highly paid American labor was producing, in many lines, more cheaply than low-paid European labor. Indeed, it was labor's high purchasing power which ultimately rescued America from the consequences of an international collapse and started her securely on the road to unprecedented mass production. It was with a prescience not its own, but with a mystical faith in the machine, that the Republican party in the 'sixties fixed the high tariff as a continuing policy.

With this tariff continued the policy of *Reciprocity*. It was something of an anachronism. It had been the natural weapon against the artificial embargoes of mercantilism, rather than against unfavorable tariffs. Its continuance was probably due to force of habit rather than deliberate policy. It involved the government in endless sophistries about conditional clauses and equivalent favors, and produced mediocre results. It was eventually abandoned in favor of a four-square tariff policy. Its chief importance is as an expression of attitude on the part of a young nation seeking to bargain for the favors of a strong world.

The End of Pioneering

America's need to export, throughout this entire period, was the result of its need to pay its debts. And such payments by a borrowing nation are not necessarily made directly to the lending nation. All that is necessary is

that the borrowing nation create sufficient credits in the world market to meet its annual obligations. To pay interest on a British loan, America need not export goods to Great Britain. It is sufficient to export an equivalent value of goods to Brazil, who will thereupon give America a credit against Brazilian goods to a like amount, which credit America may transfer to England in satisfaction of her interest charges, and England may forthwith import the goods directly from Brazil.

Hence American export, during this period, was gradually spreading to neighboring countries, supplementing her direct shipments of cotton and wheat to Europe. From this need to export not only to Europe but also to South America and to Asia, America derived one more international policy. This was the policy of the *Open Door.* Among the very few interests which isolated America felt in the outside world was that of being permitted to sell abroad on equal terms with any other nation. This policy became vocal and aggressive in the period which is to be considered in the following chapter. But even from the beginning and especially since 1844, when Caleb Cushing opened China to American trade, and since 1852, when Admiral Perry broke open the gates which barred the trade of Japan to the outside world, the United States government had insisted on the right of trade with foreign countries on an equality with any other country.

Yet this eagerness for export opportunities was not essentially aggressive. The United States needed only such

export opportunities as would permit her to pay her debts. She had no emotional urge to send her surplus wealth abroad. All that she could produce, beyond what was demanded to satisfy her contractual obligations, was needed for the development of her own territory. The United States, in the position which she occupied in the eighteen eighties, had not the slightest desire to "conquer markets." The doctrine of the *Open Door,* as it was developing in this period, was strictly defensive. It was equivalent to the farmer's saying: "Don't obstruct the road while I am taking my year's harvest to market." It did not become aggressive until the end of debtorship was in sight, until a fully colonized continent was equipped to prosper without foreign aid and to produce a surplus of goods, beyond what it owed the world, for investment abroad.

But shortly before the year 1890 the trend of American history was changed. The "frontier period" ended. Virtually all the available free land had been taken up, and was being developed. The Americans had finished taking possession of America. From that time on, the surplus wealth of the nation would be required less imperiously for internal development, and would tend more and more to overflow into the outside world. From that time on, the United States would feel less and less the emotions of the debtor, and more and more the emotions of the money-lender. The pioneer farmer, his income now exceeding his interest obligations, was becoming in his turn the local capitalist. He was gradually acquiring the psy-

chology which in his years of debtorship he had so bitterly resented.

But one does not quickly forget the rules of life under which one has struggled and prospered. Such rules become religious dogmas. The United States passed from the position of a borrower into the position of a lender with all the safe old mottoes, the accumulation of a century of pioneering, graven on her mind. She would not learn the new tricks. It remained for another new generation of Americans to examine anew the conditions of a new life.

CHAPTER III

DOLLAR IMPERIALISM

ON a winter afternoon of January, 1893, a group of some seventy-five foreign residents of the Sandwich Islands met in a room in Honolulu. They decided to form from among their number a new government, called a committee of safety. The committee, of thirteen members, was composed of six natives and seven foreigners,—one Englishman, one German and five Americans. An American named Dole, a rich sugar planter, was elected president of the committee.

Two days later this committee drummed up a mass meeting of its friends and caused to be passed a motion empowering it to "secure the permanent maintenance of law and order and the protection of life, liberty and property in Hawaii."

This was the famous Hawaiian "revolution" of 1893, which resulted in the annexation of the islands to the United States. Within two hours of the "revolution," the United States fleet anchored (perhaps not accidentally) in the harbor sent 160 marines ashore, fully armed and provided with light artillery, to "preserve order."

There had been no disorder, and no threat of disorder. There had been a minor political controversy which did

not deter a single housewife from going out to buy rice.

But the next day, a member of the committee of safety mounted the steps of the government building, and read to an audience consisting of nobody, a proclamation declaring that the committee had constituted itself the provisional government of the islands. Perhaps the statement that there was no audience is inaccurate; the 160 marines were drawn up 67 yards from the speaker (the exact distance is a matter of official record), armed and ready for anybody who should attempt to "create disorder." Under these guns, the committee thereupon proceeded to occupy the government buildings and to summon the allegiance of the tiny Hawaiian army. Queen Liliuokalani abdicated under protest, demanding that the American government investigate and restore her to her rights. The committee immediately dispatched a commission to Washington requesting the annexation of the islands to the United States.

This was America's first active adventure in imperialism. It is of unusual interest, not only because it was the first, but because it clearly reveals, as no subsequent adventure revealed, the tug and pull of American foreign policy in the transition era.

Why did Mr. Dole so passionately desire the annexation of the Hawaiian Islands to the United States? Because he was one of a number of American capitalists who had invested their money in Hawaiian sugar plantations. Hawaii was especially adapted to sugar production.

From 1875 the United States had had a tariff treaty which permitted the free import of Hawaiian sugar into the United States. The moment the dollar could produce any surplus capital, over and above what was needed for internal development, it sought an outlet abroad. That moment came late in the 'eighties, when "the frontier was closed," and the entire American continent in the possession of the United States had been provided with the minimum capital necessary for its development. Thereafter dollars tried to emigrate, and the most favorable port was Honolulu, where sugar fields offered to produce in abundance a commodity which the United States would consume in abundance.

But when the McKinley tariff of 1890 entirely abolished the tariff on sugar, the Hawaiian planters faced ruin. They could not compete with Cuban and Porto Rican sugar on a cost basis; they needed the preferential feature of the United States tariff to insure their market. The American minister to Honolulu reported that the (American) sugar planters were losing $12,000,000 a year. Their only hope was to effect the annexation of the Islands to the United States, in the expectation that a new sugar tariff or bounties would restore their privileged position.

"Hawaii," wrote Minister Stevens to the State Department, "has come to the parting of the ways. She must now take the road which leads to Asia, or the other which outlets her in America, gives her an American

civilization and binds her to the care of American destiny."

The United States State Department, doubtless with President Harrison's approval, agreed with him. The committee of safety was organized with Stevens' approval and with the consent of Washington. The United States Marines were landed by pre-arrangement. The Hawaiian "revolution" of 1893 was an official, although unacknowledged, act of the foreign office of the United States government.

But the Cleveland administration, which presently came into office, took a very different view of the merits of the situation. The contradiction between its policy and that of its predecessor affords a perfect example of two contrasting American policies in conflict.

Two Historic Phases

The practise of dividing history into "periods" or "phases" is useful, for it helps to distinguish the great compelling motives which successively dominate the political actions of men. But these successive phases do not follow directly, like one mile of road after the first. There is never a milestone to mark the point at which one historic tendency suddenly ceases to become operative and a new one springs into full effectiveness. Historic phases overlap. There is always a period in which both motives

are acting contemporaneously and at cross purposes over the same field. Only gradually does one yield place to the other as the latter gathers its full momentum in the new age.

What further confuses such transition periods is that men rarely realize clearly what they are doing or why they are impelled to do it. New ideas always lag behind new facts. Men's minds are lazy; they like to remain swathed in the old rules and slogans which have in the past proved sound. When men approach new living conditions, they rarely take accurate stock of the changed circumstances and adjust their thinking to them. They prefer to imagine that they are still living in the old conditions, and act so far as possible as though they really were. And when they are impelled by the new conditions to a new set of actions, they usually try to explain them with the old familiar phrases.

The years of which this chapter treats comprise such a transition phase in American history. Two great motives were operating concurrently; and a new national policy was rationalized with an old set of rules and slogans. For decades the United States had been a debtor nation, and had held to the debtor psychology: "Let me alone and I will let you alone." During the present phase she remained a debtor, and her predominant interest was still in isolation and defense. But at the same time she was beginning to lend money abroad, and her interests in so far as concerned her lending activities were in the field of commercial aggression and participation in world activi-

ties. Here was a conflict between a predominant interest and a secondary interest; between a passive interest and an active one. But while the United States remained to the end of this period a debtor on net balance, she was continually exporting more capital. As lender she was becoming imperialist, while as net debtor she was still predominantly anti-imperialist and thinking, or at least talking, as though her new acts squared with her old principles.

The outward flow of American capital to Hawaii had begun well before the beginning of this transition period —as far back, indeed, as 1875. By 1893 most of the invested capital of the islands was in American hands. Here, at one small spot on the globe the United States had a predominant imperial interest. The Harrison government acted upon it as imperial nations will. But in order not to shock a people who in the main had anti-imperialistic interests and were wholly dominated by anti-imperialistic habits of thinking, the transaction had to be represented as a free act of the sovereign Hawaiian people.

When President Cleveland, who was honestly trying to represent the whole nation and not the special interests of sugar, examined the proposed treaty of cession, he was outraged.

"This treaty," he told the Congress in his first annual message of December 4, 1893, "I withdrew for examination and dispatched the Hon. James H. Blount, of Georgia, to Honolulu as special commissioner to make

an impartial investigation of the circumstances attending the change of government and of all conditions bearing upon the subject of the treaty. After a thorough and exhaustive examination Mr. Blount submitted to me his report, showing beyond all question that the constitutional government of Hawaii had been subverted with the active aid of our representatives to that government and through the intimidation caused by the presence of an armed naval force of the United States, which was landed for that purpose at the instance of our minister. Upon the facts developed it seemed to me the only honorable course for our Government to pursue was to undo the wrong that had been done by those representing us and to restore as far as practicable the status existing at the time of our forcible intervention."

And two weeks later in a special message he recounted in great detail the whole of the intrigue. "I suppose," he said, "that right and justice should determine the path to be followed in treating this subject. If national honesty is to be disregarded and a desire for territorial extension or dissatisfaction with a form of government not our own ought to regulate our conduct, I have entirely misapprehended the mission and character of our Government and the behavior which the conscience of our people demands of their public servants."

Here was a sturdy old anti-imperialist speaking, and beyond question correctly interpreting the sentiments of the people he represented. The greater part of the speech

is a model of concise and forceful English, revealing the clear and courageous thought of the man.

But toward the end of this really magnificent speech there occurs such an anti-climax as can hardly be duplicated in American state documents. President Cleveland explained that he was all for reinstating Queen Liliuokalani on her rightful throne, but when he suggested to her that she decree an amnesty for the revolters she replied that she would most certainly chop off their heads. It then appeared that all this exalted Anglo-Saxon idealism had been wasted on behalf of a half-savage old lady whose only idea of polity was to decapitate those who displeased her. So the man who had so courageously stood up for abstract right and justice, who had understood so clearly what not to do, confessed rather pathetically that he could not imagine what to *do* about it, and passed the responsibility on to Congress without recommendation.

The result was that the provisional government was maintained in power until somebody could think of something to do, and the islands were finally annexed without opposition during the Spanish War. In politics, even more than in business, it is difficult to unscramble eggs.

In the case of Hawaii, the distinction between the imperialist and the anti-imperialist interests is dramatically personified. But generally the contradiction between conflicting interests, and between new interests and old ideology, has persisted in the minds of the same men.

Generally, throughout this transition period, those in control of American policy were either doing old things when new things were called for, or doing the new things and calling them by old names. American statesmen had not acquired an imperial technique; usually they were puzzled and distressed when confronted by imperial problems, they twisted and struggled to transform them into the familiar old problems, amenable to the old rules of action; and when this proved impossible they sought to describe and justify their acts in terms which were either meaningless or blatantly inappropriate. As late as 1917, Secretary of State Lansing was saying in justification of the military occupation of Haiti:

"We have only one purpose to serve,—this is, to help the Haitian people and prevent them from being exploited by irresponsible revolutionists. . . . The United States has no purpose of aggression and is entirely disinterested in promoting this protectorate."

The Adolescence of the Dollar

The outflow of American capital to Hawaii in the period 1875–93 was something of an accident, a mere trickle of money. During this period, the United States was in no position to lend large amounts of money abroad. For all that she could spare, over and above domestic consumption and investment, was needed for the payment of interest on her foreign debt.

In the previous period, 1850–74, as has been shown, America imported from Europe substantial amounts of capital in the form of goods, especially steel rails for the construction of her railways. The total amount of European capital thus poured into America in this period was around one and a half billion dollars. Thereafter America had to meet the interest charges on this sum by exporting American goods in excess of goods imported. Before 1875, the United States had usually imported more than she had exported. After 1875, with the exception of but two years, she exported more than she imported. Although she continued to import capital in large amounts, between $80 million and $100 million of excess exports were required to settle the interest charges, besides further exports to take care of tourist expenditures and immigrants' remittances.

The panic of 1893 threw all financial relations into confusion. But as soon as she had recovered from this depression, about 1896, the United States commenced to export commodities at an astonishing rate. In the former period the average excess of exports over imports had been some $113 million; in the latter period, 1895–1914, the average rose to $478 million.

For the first time, America's trade balance became truly favorable—that is, America shipped enough goods abroad to pay its interest charges, to cover the expenditures of its tourists and the remittances of its immigrants, and still have large sums over for investment abroad. This phase may be called the second half of the "second

period," the phase in which a debtor nation begins to cancel its foreign debt by exporting capital.

It then began to be true, as stated later by the Bankers Trust Company, that: "Our prosperity will be permanent only when a market can be found for all the goods we can produce. . . . In order to keep invested capital employed at the point of most economical production, by finding a market for all it can produce, our manufacturers are compelled to seek constantly greater outlets in foreign trade. . . ."

America's surplus goods suddenly began to flow abundantly into foreign lands in the form of permanent investments. By 1899 Americans had invested $150 million in Canada, $185 million in Mexico, $45 million in South and Central America, and $50 million in Cuba.

Fifty million in Cuba! The amount was quite disproportionate to the size and general economic importance of the island. But Cuba was the ideal sugar producing land, and sugar was a commodity which was consumed by every one of the 100,000,000 inhabitants of the United States. Cuba, in American history, was the second Hawaii.

There is no external reason why the United States should have intervened in Cuba precisely in the year 1898, rather than before or after. The Cubans had always been oppressed by Spain; they were repeatedly in revolt; and America had for more than three quarters of a century looked toward Cuba as a land to be freed from European vassalage and brought into the American

political sphere. But in 1898, while a new revolt was still in progress, America suddenly became Cuba-conscious.

There were hundreds of millions of American capital available for investment in Cuban sugar. But such capital could not be sure of its earning power if the land were to be perpetually torn by revolution, if the plantations were to be subject to arbitrary taxation or administrative interference by the Spanish government, or if sugar export were to be blocked by American tariffs seeking to favor the Hawaiian and the domestic producer. The imperial motive suddenly became active.

But the American people, as the sugar interests well knew, were temperamentally opposed to foreign wars. The attitude toward foreign affairs so eloquently and rationally expressed by Cleveland in 1893 was held by the vast majority of Americans as a kind of religious dogma, a self-evident truth admitting of no discussion. This emotional inertia, this dead resistance to foreign adventures inherited from the period of debtor anti-imperialism, must be constantly borne in mind, for it explains a great deal which is confused in American foreign policy to this day.

To make the Spanish War at all acceptable to the American public, it had to be presented as being exclusively moral in purpose—for in America the moral issue, if sufficiently intense, will override every other national dogma. To the assertion that the sole purpose of the war was to liberate an oppressed people, there had to be added a formal pledge, to the effect that:

"The United States hereby disclaims any disposition or intention to exercise sovereignty, jurisdiction, or control over said Island except for the pacification thereof, and asserts its determination, when that is accomplished, to leave the government and control of the Island to its people."

With this on the record President McKinley could be persuaded to drop the hopeful negotiations then proceeding with Spain and declare war.

Being bound by her self-denying ordinance, the United States was estopped from any sort of formal annexation of Cuba, and was obliged to fumble about for four years before she could hit upon the formula which effectually achieved her design. But she was under no such pledge regarding other Spanish possessions seized. Once the people, in the enthusiasm of a victorious war, had become accustomed to the feel of other people's property, Porto Rico and Guam were annexed, and the cession of Hawaii, so sternly rejected five years before, was accepted virtually without opposition. The Philippines, being much more distant, were a bigger pill. There simply were no arguments in the whole battery of the annexationists which could be made to square with the inherited dogmas of the Old Believers in isolation. The slogan of the time was that "we didn't want the Philippines, but they came to us." They "came," of course, because America had seized them by military force. The argument was hardly effective. It was President McKinley who produced the argument which always triumphs

over American reason when it squares with American interest. "I walked the floor of the White House night after night and. . . . I went down on my knees and prayed Almighty God for light and guidance. . . . And one night it came to me in this way. . . . there was nothing left for us to do but to take them all." If God is with us, who shall be against us? The prospect of an opportunity to Christianize (or Protestantize) the Filipinos won over the churches. The bloody suppression of the Philippine independence movement was thereafter a mere administrative detail.

"Without any original thought of complete or even partial acquisition," wrote President McKinley to the Peace Commissioners on September 16, 1898, "the presence and success of our arms at Manila imposes upon us obligations which we cannot disregard. The march of events rules and overrules human action. Avowing unreservedly the purpose which has animated all our effort, and still solicitous to adhere to it, we cannot be unmindful that, without any design on our part, the war has brought us new duties and responsibilities which we must meet and discharge as becomes a great nation on whose growth and career from the beginning the Ruler of Nations has plainly written the high command and pledges of civilization. Incidental to our tenure in the Philippines is the commercial opportunity to which American statesmanship cannot be indifferent."

The "commercial opportunity" which the Philippines offered added a welcome imperative to the high com-

mand of the Ruler of Nations. Whitelaw Reid, one of the Paris Peace Commissioners, said in 1899: "The Pacific Ocean is in our hands now. Practically we own more than half the coast on this side, dominating the rest, and have midway stations in the Sandwich and Aleutian Islands. To extend now the authority of the United States over the great Philippine Archipelago is to fence in the China Sea and secure an almost equally commanding position on the other side of the Pacific—doubling our control of it and of the fabulous trade the Twentieth Century will see it bear. Rightly used, it enables the United States to convert the Pacific Ocean almost into an American lake. . . . The trade in the Philippines will be but a drop in the bucket compared to that of China, for which they give us an unapproachable foothold."

But while the imperial vision is unquestionable here, the imperial technique is still lacking. The outstanding characteristic of the expansion of this period was that it followed, as nearly as possible, the *formula* of previous expansion periods, while being directly contrary in *motive*. Although the United States was for the first time in its history entering territory which possessed a fully developed alien culture, she could think of no mean between direct annexation and total disinterestedness. Previous annexations had been entirely nationalistic in motive: they aimed at complete assimilation for the territorial aggrandizement of the nation. In the cases of Cuba and the Philippines assimilation was out of the

question. An imperial technique was called for; but only a national technique was at hand. Consequently Porto Rico was annexed with quasi-territorial status, and the Philippines (although there was a pledge of "eventual" liberation) were governed by Washington far more completely than any Territory. It is impossible to estimate how much blood and money might have been spared in the Philippines if Washington had granted freedom while reserving certain specified rights and privileges. But the Old Believers, while they could admit the propriety of annexation (including the propriety of a war to suppress liberty), were firmly convinced that "interference" was immoral. While acting imperially as far as she dared, the United States was still thinking nationalistically.

But in the case of Cuba this tug between ideology and interest produced America's first true imperial arrangement. America could not take Cuba and would not let it go. The compromise was finally expressed in the Platt Amendment. While recognizing Cuban independence, the United States obliged Cuba, under duress, to agree:

Not to permit any foreign power [1] to assert political influence over Cuba, or to obtain a military or naval foothold on the island.

Not to contract any foreign debts beyond the capacity of the ordinary revenues to repay.[2]

[1] Except, of course, the United States.

[2] Except with United States bankers at the discretion of the United States government.

Not to object if the United States should send military forces to Cuba for the maintenance of order, and in general for any reasons which the United States might deem sufficient.

Here was the reality, but not the form, of political sovereignty. The Amendment was drafted and put through without imperial finesse. But however clumsily worded, however ungraciously forced upon the Cuban people, it was America's first adventure in true imperialism.

The Great Trade Expansion

It has already been suggested that it was no accident that Cuba was brought under American control in the years 1898–1902. Neither was it an accident that the first years of the twentieth century saw the initiation of an American canal across the Panaman isthmus. Both questions had been mooted for more than half a century. But in both, throughout that period, America was only tepidly interested. The reason was that she was developing her internal resources too intensely to have any surplus wealth to lend abroad.

As we have seen, this condition came to an end following the country's recovery from the panic of 1893. The period 1896–1903, under the influence of rising prices stimulated by new discoveries of gold, was one of commercial expansion such as has never been equaled since.

From 1894 to 1909 American foreign trade jumped from $1,600 million to nearly $3,000 million. This was especially a period of industrial expansion. Between 1896 and 1900 the exports of manufactures increased from $258 million to $485, rising from 18% to 35% of the total. The United States, which previously had been regarded by Europe as a wheat and cotton nation, was rapidly on the way to becoming more industrial than agricultural.

This is to say that the *imperial* motive, almost nonexistent in the agricultural stage of American economy, was becoming dominant. Off in the Pacific lay the richest potential markets. An isthmian canal could open the entire west coast of South America to the American manufacturer. Across the Pacific was China, becoming increasingly important as a low-price market. And last, but far from least, a canal would furnish an all-water route between the manufacturers of the east and the growing market of the Pacific states—a route much cheaper for most classes of freight than the railroad.

By this time the export of merchandise and capital, reinforced by the experience of the Spanish War, had begun definitely to leaven the American mind. Nothing could illustrate more sharply the change in the direction of empire in the space of a mere ten years than a comparison of Cleveland's attitude toward Hawaii and Roosevelt's toward Panama. The Panaman revolution of 1902, by which that country broke away from Colombia and offered the United States part of its territory for the construction of the proposed canal, was suspiciously similar

to that which occurred in Hawaii in 1893. Indeed, Cleveland's speech might have been delivered almost word for word with reference to Panama. But no one can imagine Roosevelt delivering it. Instead he said, although privately: "I took the Canal Zone and let the Congress debate, and, while the debate goes on, the Canal does also." Here for once, was an imperial act, its object candidly admitted and its nature accurately described. The territory was seized not for the sake of the Panamans but for the sake of the Canal.

And now the traditional American policies began to undergo astonishing changes. The *Open Door* principle had always been insisted upon when a case arose. But few situations which threatened specific American trading or investment interests arose, and it was not until 1899, by virtue of Secretary of State Hay's insistence on the granting of treatment to American traders in China equal to that granted to traders of other nations, that the principle became consciously a part of American policy.

It was natural that an aggressively exporting nation should desire equal treatment in territories to which its rivals had come earlier in search of exclusive privileges. It was equally natural that when it secured dependencies of its own, it should seek to reserve all possible trade advantage for itself, to the detriment of its rivals. In the first blush of idealism which accompanied the Spanish War, there was a general belief that the United States would grant to others what she asked from others. This idealism quickly evaporated as business interests began

to press upon Congress. While in Samoa and eventually in the Canal Zone tariffs were maintained which bore as heavily upon American as on other imports, everywhere else, as rapidly as might be, the United States saw to it that her goods had a preference. In the cases of Porto Rico, Hawaii and Alaska, which had Territorial status, this was unexceptionable; all tariff barriers between these Territories and continental United States were abolished. But Cuba was technically independent, and the Philippines were held under what nowadays would be called a "mandate." After periods of rather awkward experimenting a Cuban tariff was arranged which granted a 20% preference to American goods, in return for preferences to Cuban goods in the United States tariff; while under the Philippine tariff all United States goods are admitted free. Apparently the world has refrained from using "open door" arguments against the United States in regard to these cases.

But the new principle of the "closed door" was also applied, in effect if not in name, to territories over which the United States claimed no sort of technical sovereignty. Gradually, as will be seen, European capital was systematically crowded out of the Caribbean area, necessarily limiting trade opportunities. Pressure was brought, as in the case of the Dziuk Anglo-German concession in Panama in 1912, and of the Neuvitas railroad in Cuba in 1913, to discourage European investments in favor of American. All this was done with more or less subtlety and no doubt the technicalities of equal opportunity were

preserved, for as late as 1922 Secretary of State Hughes could say:

"We are not seeking special privileges anywhere at the expense of others. We wish to protect the just and equal rights of Americans everywhere in the world. We wish to maintain equality of opportunity; as we call it, 'the open door.'"

Yet by all means short of openly renouncing the principle and declaring a protectorate over the Caribbean, the influence of the United States has been thrown in the direction of favoring American trading and banking interests as distinguished from those of other nations. It should be said, however, that this tendency did not gather full momentum until after the World War, and then its motive was no longer purely economic but partly military.

The Dollar Makes a Sortie

The Spanish War had been justified in the popular mind as a moral crusade, only temporarily overriding America's traditional *Isolation* policy. In public opinion, *Isolation,* or "anti-expansionism," was still the rule of American life; the war had seemed but an imperative exception.

This feeling continued to be the inertia element throughout the succeeding period. The expansionist acts

of the government had to be justified to the people, if not on moral, then on defensive principles. The Bryan campaign of 1900, which took "anti-imperialism" as its paramount issue, appealed vastly to the farmers and the small trading class, who as yet had no reason to revise their inherited fear of foreign adventures.

The first problem which confronted a nation which had begun to export capital was obviously the protection of its foreign investments. Yet the traditional American attitude toward this problem was derived from that of the private money-lender: "Be careful whom you lend to; if he goes bankrupt it is your fault for having trusted him."

This attitude was expressed by Mr. Elihu Root, then Secretary of State, in a speech in Buenos Aires in 1906. Mr. Root said:

"The United States of America has never deemed it to be suitable that she should use her army and navy for the collection of ordinary contract debts of foreign governments to her citizens. For more than a century the State Department . . . has refused to take such action, and that has become the settled policy of our country. . . . We deem the use of force for the collection of ordinary contract debts to be an invitation to abuses in their necessary results far worse, far more baneful for humanity, than that the debts contracted by any nation should go unpaid."

The same policy was expressed (although, some may

think, rather out of season) in the resolution presented by the American delegation to the Second Hague Conference—known as the Porter Resolution. It read:

"The contracting powers agree not to have recourse to armed force for the recovery of contract debts claimed from the government of one country by the government of another country as being due to its nationals.

"This undertaking is, however, not applicable when the debtor state refuses or neglects to reply to an offer of arbitration, or, after accepting the offer, prevents any *compromis* from being agreed on, or, after the arbitration, fails to submit to the award."

In authorizing its delegate to submit this resolution, the American State Department unquestionably had its eye on the European powers who might seek forcibly to collect their debts in the American hemisphere. Being a debtor nation, the United States had the instinctive debtor's feeling toward the money-lender, and instinctively took the side of the Latin-American debtors of Europe. The Resolution was a kind of financial statement of the *Monroe Doctrine.*

It was characteristic of the American government's lack of political experience in international affairs, that it could put on public record a statement of policy which within a few years it was to reverse, where its own interests were involved, in such dramatic fashion. It is only another example of the conflict between inherited ideas and new realities, between the defensive and the aggressive interests, which characterize this period.

The inherited ideas of the American government on this question of forcible debt collection are unequivocal. The *Monroe Doctrine,* in the first instance, only asserted the intention of the United States to resist the further colonization of the American hemisphere by Europe, or the extension of its "system" there. But the United States acquiesced when, in 1858, Great Britain blockaded Salvador to force payment of debts, and made no objection to a proposed British expedition against Vera Cruz. Nor, in the same year, did it "call in question the right of France to compel the government of Mexico by force if necessary to do it justice." And Secretary of State Sherman very explicitly refused to help Haiti against Germany when the latter sent warships to collect an indemnity for an injury to a German citizen. President Roosevelt in 1901 summed up the American doctrine by saying: "We do not guarantee any state against punishment if it misconducts itself, provided that punishment does not take the form of the acquisition of territory by any non-American power."

But after work had begun upon the Panama Canal the United States was eager to get loose from this doctrine, fearing that the acknowledged right of intervention on a financial pretext anywhere in the Caribbean might be a potential menace to the Canal. The Porter Resolution expressed this defensive feeling.

It was in the name of defense that the United States presently went further and inaugurated an aggressive policy among her Caribbean neighbors. In 1904 the Re-

public of Santo Domingo was defaulting on its foreign debts and it seemed likely that Italy and France would take military action to collect. Already the American government had become sensitive to any European influence in the vicinity of the Canal.

"On the one hand," President Roosevelt had said, "this country would certainly decline to go to war to prevent a foreign government from collecting a just debt; on the other hand, it is very inadvisable to permit any foreign power to take possession, even temporarily, of the custom-houses of an American Republic in order to enforce the payment of its obligations, for such temporary occupation might turn into a permanent occupation. The only escape from these alternatives may at any time be that we must ourselves undertake to bring about some arrangement by which so much as possible of a just obligation shall be paid."

Accordingly, Roosevelt in 1905 drew up a protocol with the Republic of Santo Domingo under which the United States should collect Dominican customs and control Dominican finance for the benefit of the Republic's creditors; and when Congress refused to ratify the protocol, he put it into effect by "executive arrangement."

"We have taken the necessary step," he explained, concerning this agreement. "But it was one of those cases where trouble was sure to come whether from action or inaction and I felt that much less trouble would come from action."

If the policy of *Isolation* means, as it certainly meant

to most Americans at the time, that "we won't interfere with anybody if nobody interferes with us," then it is curious that the first breach in this policy was made in an effort to preserve it. It was, indeed, made by "friendly agreement," but the picture of the American navy, conqueror of Cuba and Porto Rico, was a shadow in the background. Roosevelt might well maintain that he had violated neither the letter nor the spirit of the Porter Resolution, but the precedent of American control of foreign customs for the collection of debts had been established.

As with men, so with nations: "Orthodoxy is my doxy, heterodoxy is your doxy." The Porter Resolution was meant to apply to Europe; it gave way to the sanctity of private debts when direct American interests were highly involved.

For the United States, too, was coming to have financial investments in the Caribbean, and if she had the right to collect debts on behalf of others she surely had the right to collect them on behalf of herself. And continued political instability in the Caribbean republics was constantly endangering the payment of debts.

By 1910 American investors had $20 million to $25 million invested in the little nations of the Caribbean other than Cuba. To protect this outward flowing capital, and the Canal which it was digging across the continent, the United States, as John Carter observes in "Conquest," "intervened thrice in Cuba, five times in Panama, five times in the Dominican Republic, six times in Nicaragua,

twice in Mexico, once in Haiti, six times in Honduras, once in Colombia and once in Costa Rica"—either with arms or with diplomatic pressure backed by potential armed force.

Interference in the Caribbean became a habit. Sometimes it resulted from a demand for a naval base, as in the case of Nicaragua in 1907, followed by forced loans.[3] Sometimes, as in the case of Haiti, the demand for control of the customs came first. Sometimes the American government intervened simply because it feared financial uncertainty might ensue if it didn't. Interventions might take place to prevent revolutions or to support them. But increasingly the American government slipped into the presumption that it had a right to concern itself not only with the general peace and stability of the neighboring islands, but with every detail of their political and financial policy.

At first Secretary of State Knox justified this habitual intervention as "preventive." If the United States had the right, so the argument ran, to intervene in Santo Domingo to protect that nation from forcible action by Europe, how much more sensible it was to take action before matters came to a crisis.

By now, American policy was well over the line which

[3] The term "forced loan" is open to several constructions. It is here used to denote a loan whose terms were in some degree dictated by the State Department against the wishes of the local legislature.

divides isolation from empire. Soon Secretary Knox was actively pursuing the policy which came to be known as "dollar diplomacy." This was, at first, the policy of protecting and forcing dollar investments not so much for their own sakes, as for the sake of squeezing out European investments, new and old, and thus warding off the possibility of new interventions from overseas. In pursuit of this policy he forced American capital into the reorganization of the Haitian Bank; he sought to refund the British Ethelburga loan to Nicaragua with American money; anticipated the lending of European money to America's quasi-protectorate Liberia in Africa; endeavored to enable American bankers to take over British-owned debts of Guatemala and Honduras; and repeatedly forced Cuba to grant concessions and contracts to Americans rather than to foreigners. A whole army of dollars was now unleashed to chase pounds, francs, lire and gulden out of the Caribbean. In this crusade Knox had only partial success, for Europe was not yet accustomed to treating the Caribbean as an American lake; over vigorous American objections, Great Britain in 1913 adjusted the Guatemalan debt with a gunboat. But that was the last time. The World War, by impoverishing Europe, subsequently completed, for all practical purposes, what Knox had begun. Ten years after Knox left office European invested capital in Caribbean America was lost in the enormous stream of American loans.

The complete reversal of the *Isolation* policy was

solemnized by Knox's note of instructions of January 7, 1913, with reference to the Guatemalan dispute, part of which reads:

"The attitude of Great Britain in demanding one and only one solution of the difficulty, especially when the solution is one likely to block the development of *a well-recognized policy of the United States in a sphere in which this government is preëminently interested,* would not appear consistent with even an ordinary regard for the broad interests and policies of the United States." (Italics mine.)

This policy of exclusive American interest in the Caribbean was not so "well-recognized" as Mr. Knox pretended, as the subsequent British gunboat showed. But the assertion of it in such vigorous terms marked a new phase in the evolution of the *Monroe Doctrine.* This has been called the "second Monroe Doctrine." It does not confine itself, as did President Monroe's message, to forbidding the further colonization of the American hemisphere by Europe, or the further extension of the "European system" there; but asserts that Europe must not collect debts or do anything else there of which the United States disapproves. It has its origin in the famous "fiat" note of 1895, in which Secretary of State Olney said to Great Britain, in the course of the Venezuelan dispute:

"Today the United States is practically sovereign on this continent, and its fiat is law upon the subjects to which it confines its interposition. Why? It is not be-

cause of the pure friendship or good will felt for it. It is not simply by reason of its high character as a civilized state, nor because wisdom and justice and equity are the invariable characteristics of the dealings of the United States. It is because in addition to all other grounds, its infinite resources combined with its isolated position render it master of the situation and practically invulnerable against any or all other powers."

Great Britain, and Europe generally, were ruffled by Mr. Olney's claim of ethical and intellectual perfection in the American government, but they granted that he had made his point clear. It is sometimes asserted that the "second Monroe Doctrine" is not really an extension of the *Monroe Doctrine,* but an entirely new "Caribbean policy." It is of course true that this policy, however named, is most actively pressed in Central America. But Venezuela, the subject of the Olney note, lies in South America. There is no doubt that the policy is meant to forbid European action alike in Central, Caribbean or South America, when such action touches the "subjects" to which the United States "confines its interposition." In other words, it is the "well-recognized policy" of the United States that Europe may act, in the western hemisphere, only subject to her consent.

Of all the major American interventions in the Caribbean region only one, that of Panama in 1903, was purely political. All the others were more or less financial in motive. But officially the financial motive was acknowledged but grudgingly, or denied altogether sometimes.

No More Revolutions

In the course of this impetuous adventure in the control of her neighbors the United States developed a new policy, commonly called "anti-revolutionism." It is succinctly stated by Colonel House, writing to Ambassador Page at London:

"It is to be the policy of this Administration henceforth not to recognize any Central American government that is not formed along constitutional lines."

Later the American government went further and asserted a kind of moral doctrine that revolutions were *ipso facto* inadmissible, and must be blockaded out of existence. In the formation of this policy, too, the cross currents of conflicting interests are clearly shown in the record.

The earlier imperial expansion of America was accomplished through the manipulation, recognition and armed support of revolutions. Hawaii, as President Cleveland abundantly proved, was brought into the American sphere by a revolution previously blessed, if not actively promoted, by the Department of State, and supported, twenty-four hours before it formally happened, by American marines. The Cuban revolution furnished the entire pretext for the Spanish War, and the Canal Zone was acquired as a result of a revolution whose operations were protected by American marines and whose legitimacy was recognized by Washington with extraordinary

haste. The Estrada revolution in Nicaragua of 1909 was actively supported by Washington, as was the Carranza revolution of 1913 in Mexico; and both were financially supported by individuals or firms interested in the fulfilment of the State Department's wishes. In addition, the threat of revolution, or the existence of revolutionary conditions, was frequently manipulated to promote America's intervention policy, as in Santo Domingo and Haiti.

The original recognition policy had been that stated by President Monroe: "to consider the Government *de facto* as the legitimate Government for us"—without inquiring too closely how it got there. But as the United States became interested in the details of internal politics in her Caribbean neighbors, she began to pick and chose among revolutions. The American government arbitrarily selected which revolutions it chose to support and which to condemn. The original reluctance to interfere gave way to an eagerness to support the party or the political adventurer who promised to advance specific American interests.

During this transition period the American government was actively supporting or blocking revolutions in Haiti, Santo Domingo, Nicaragua and Mexico, seeking to place in power a government which would promise to grant American concessions or put into effect American policies. But once it had established governments to its liking, it objected to their being overthrown. It became anti-revolutionist. Its interest was to preserve the *status quo*.

It should be said, for the benefit of any who are not aware of it, that revolutions in Latin America are, with rare exceptions, not popular revolts against oppression, but simply and solely *coups* on the part of army officers seeking to obtain political power by means of bribery and terrorism. As Colonel House accurately said, in the letter just cited, "revolutions and assassinations [in Latin America] are instituted almost solely for the purpose of loot." There is no reason why such acts of political banditry should be accorded the dignity of the French, American and Russian revolutions, nor of the Madero revolution of 1911 in Mexico. On general grounds of common sense and common humanity the United States is justified in seeking to discourage irresponsible upheavals among her neighbors. But the question is whether, during the period under consideration, the United States adopted the means calculated to promote general peace and stability or the contrary.

Tourist Diplomacy

After the Bryan campaign of 1900 organized opposition to American imperial expansion ceased. But opposition continued, sometimes with great energy and authority, against the means adopted. It is pretty generally conceded that while the expansion was inevitable and the motives on the whole sensible, the means used were extremely clumsy and badly adapted to their purpose. As Lord Gray once said, "American diplomacy is still

young; it is about in the stage in which English diplomacy was in 1775."

The motives of American intervention in this period may be listed as follows:

The preventing of European interference in the western hemisphere for the collection of debts.

The safeguarding of the orderly processes by which public debts are paid.

The concentration of the public obligations of Caribbean governments in American hands.

The exclusion of any possibility of foreign military bases in the vicinity of the Panama Canal.

The effecting of these principles involved action which shocked the Old Believers in American isolation. But anyone who keeps in mind the interests of the Caribbean peoples, as distinguished from those of the Caribbean politicians and army generals, will recognize that peace and civil order are a clear gain, whether enforced by internal or external authority; that defaulted debts are a fruitful source of war; that revolution, except when it answers a profound human and economic need, is a nuisance and a tyranny.

If the interests of the entire population of the Caribbean islands and Central America be considered, it is evidently desirable that some outside authority should prevent the visits of European warships; the incursion of local army regiments bent on loot; the needless involving of the local government with foreign governments; the perilous temptation to play politics with half a dozen

foreign nations; and the fostering of war or the threat of war by rival naval bases in near proximity; and that the investment of capital should be encouraged and promoted to develop local industries, give employment to local labor, and foster trade relations with the outside world.

But *how* such outside authority should establish such conditions is the primary problem of empire building. The American politicians and diplomats of the period 1898–1914 were establishing an empire with no inherited experience of how to do it.

The means which the American State Department employed for the above purposes in the period 1898–1914 were:

The encouragement or discouragement of local revolution, according to the circumstances of each case, by means of the granting or withholding of arms, the granting or withholding of diplomatic recognition, the active or passive intervention of United States troops, the release or withholding of customs duties forcibly seized, and the unofficial permission to American individuals or firms to give financial support to revolutionary elements;

The direct support, by any or all of the above means, of pet governments or pet politicians, involving an active participation in the internal political life of the country in question;

Direct government and administration by United States military forces.

When a great power becomes interested in a small

country the first impulse is to play local politics. But it cannot play local politics without becoming responsible for every political act of the country. To favor a pet government must ultimately mean to support it with armed force. To support it with armed force means to grant civil powers to a military department. And to do this means, necessarily, entirely to lose control of the situation.

A characteristic feature of American intervention in the Caribbean was the administration of local affairs by the Navy Department. Admirals, who were trained specifically to fight people, were suddenly asked to govern them. It was as though a lawyer who all his life had been an attorney for big corporations were appointed judge of a federal court trying interstate commerce cases.

In handing the situation over to the admirals the American State Department abdicated its function. It ceased to that extent to control American foreign relations. For you can never control anything unless you can control its details. The Navy administration created situations which the State Department could not disavow, and which it could only beg the Navy Department to solve. And the Navy Department could only solve them by military methods, creating new civil problems which the State Department was obliged to pass back to the Navy.

Such mistakes were natural enough in the stage of "puppy imperialism." The acquiring of the flawless imperial technique requires decades and perhaps even centuries.

Another characteristic of the American government's

methods with small Latin-American nations has been a kind of executive efficiency which gets brilliant results in a manufacturing plant, but is as out of place in diplomacy as diplomatic politeness would be in a factory. Not only general policies, but details of execution, were dictated by twenty-four hour ultimatums. Arbitrary arrests under martial law, seizure of government funds, blockade of ports, censorship and hand-picked cabinets—all were resorted to in order to create regimes which would meet the requirements of the American government.[4]

It is not true, as generally supposed, that the United States has not sought friendly agreement with the Latin-American states before proceeding to military measures. On the contrary, the Washington government has shown great patience in attempting satisfactory negotiation. But almost invariably it has at some point in the negotiations become perplexed and discouraged, and then, with the impatience of the efficient executive who is accustomed to give orders, has plunged into the dictatorial course. This is, of course, the result of unfamiliarity with foreign peoples. It is done in the mood of the American tourist, who becomes angry when his ice water and his ham and eggs do not appear promptly, and belligerently demands "service."

This method of dealing with foreign peoples is not really imperialistic. It is typically nationalistic. For it applies to foreigners the methods which a national government is accustomed to apply to its own citizens, when

[4] For a concrete instance, see Notes to this chapter.

they refuse to obey its laws and executive orders. A government has a right to apply direct pressure to enforce obedience to its laws, and it normally has public opinion with it. In dealing with a foreign people, no such right is recognized. Direct enforcement tactics breed not law and order, but discontent, suspicion, instability. What drove the American colonists to the point of *active* rebellion was not the stamp taxes and the trade embargoes, but Lord Howe's military government in Boston.

In contrast to this nationalistic direct action, imperialism has a technique more subtle, more patient and in the end more effective. Imperialism will be as far as possible disinterested in details, personalities and parties. It will apply pressure with the maximum reserve, and then only after due preparation upon the precise spot where the least pressure will produce the maximum of results. It is interested less in stable governments than in stable government, and it knows that stable government is the result not of "strong men" but of increasing well-being and content among the people. In short, it seeks less to compel compliance than to foster that mutuality of interest between the imperial and the client power which alone can make the imperial relation permanent.

The consequence of all the Caribbean adventures can be summed up briefly. The American policy of *Isolation,* as a fixed rule of conduct, was abandoned. Thereafter, the United States intervened in the affairs of others whenever, and in so far as, intervention seemed likely to advance American interests.

America Scrambles for Raw Materials

In the history of most modern empires, the scramble for raw materials has been one of the effective, perhaps the most effective of the causes of war. In the evolution of America this motive developed late, and until after the World War was only a minor element in its foreign policy. The reason is evident. The United States is abundantly supplied with most of the raw materials by which nations live; in the pre-War era those materials which she lacked, such as tin, manganese and nickel for industrial processes, and coffee, fruit and cocoa for foods, were supplied through the regular channels of trade from the American hemisphere, in which, the State Department believed, no large war would ever interrupt commercial communications. Rubber, produced almost entirely in the British and Dutch East Indies, became of major commercial importance only with the spread of the motor car. As for petroleum, there seemed to be an inexhaustible abundance of it within the confines of continental United States.

Although the United States had experienced minor ructions with foreign countries over the attempted monopolization of needed raw materials (as with Germany over potash), she was not tempted to imperial action until about 1911 when the supreme importance of motor oil for transport by land and sea began to dawn on everybody. Even then, the motive was less that of promoting

public policy (which became the dominant one ten years later) than of protecting individual American interests abroad. Before the World War, the United States was only getting its apprentice lessons in the politics of raw materials.

In 1900 Mexico was insignificant as an oil-producing country. Mr. Edward L. Doheny secured several hundred thousand acres of prime oil land for little more than a dollar an acre, and by playing friendly politics with President Diaz, presently owned the greater part of the Mexican wells. But the British, who at this time were seriously prospecting for oil, decided they could play the same game, and by 1910 Lord Cowdray's Mexican Eagle had 58% of the total production. Testimony before the Foreign Relations Committee of the American Senate and elsewhere asserted that American interests helped finance the Madero revolution, and that the British aided the counter-revolution of General Huerta. When Carranza rebelled against Huerta, the United States was vigorously on his side, so much so that President Wilson seized Huerta's seaport Vera Cruz on the slightest of pretexts and permitted the shipment of arms to the revolutionists, while British interests, supported by the Foreign Office, did everything possible to preserve Huerta in power. Why was the United States drawn into a first-class contest with Britain over a raw material of which she had an abundance and whose vital importance she did not at the time realize?

"What the devil," as Ambassador Page asked, "does the

oil or commerce of Mexico or the investments there amount to in comparison with the close friendship between the United States and Great Britain? The two countries should agree upon this primary principle—to leave their oil interests to fight their own battles, legal and financial."

The answer is that the oil interests were fighting their battles by the suborning of banditry and revolution, and so endangering not only all other investments in Mexico, but the entire American trade with that country. It would seem that the American government, in the first stage, was not seeking primarily to protect the interests of individuals, but to put an end to foreign intrigue in Mexico. It was not until later that the government took on the case of the oil prospector versus the Mexican constitution, and deliberately sought control of the country in order to supplement the fast dwindling domestic supply of oil.

The significant feature of this elaborate adventure into imperialism is the spirit in which the United States government went about it. To President Wilson it was never a commercial issue but a moral issue. Some of the most amusing anecdotes of all diplomatic history are concerned with the Mexican quarrel. Burton J. Hendrick, in his "Life of Page," recounts a conversation between Wilson and Sir William Tyrell of the Foreign Office.

"When I go back to England," said the Englishman, as the interview was approaching an end, "I shall be asked to explain your Mexican policy. Can you tell me what it is?

"I am going to teach the South American (sic) *Republics to elect good men!"*

. . . "Yes," replied Sir William, "but Mr. President, I shall have to explain this to Englishmen, who, as you know, lack imagination. They cannot see what is the difference between Huerta, Carranza, and Villa."

The only answer that he could obtain was that Carranza was the best of the three and that Villa was not so bad as he had been painted.

Apparently this answer did not convince the British, for a week later Sir Edward Grey brought up the matter with Ambassador Page.

"Suppose you have to intervene, what then?" (asked Grey).

"Make 'em vote and live by their decisions."

"But suppose they will not so live?"

"We'll go in again and make 'em vote again."

"And keep this up two hundred years?" asked he.

"Yes," said I. "The United States will be here two hundred years, and it can continue to shoot men for that little space till they learn to vote and rule themselves."

The British empire builder laughed in Page's face.

Such was the spirit in which the United States approached her international problems on the eve of the World War. Every issue was instinctively dramatized in a guise which could be comprehended by a people just emerging from pioneer habits and ways of thinking. A neighboring nation was pictured as a kind of wild western town whose habits and morals must be attended to

by a committee of safety composed of good citizens. The only motive which could justify national expansion was the promotion of morality. And the only means which could be imagined were those whereby law and order are preserved at home, the policeman's nightstick and the soldier's rifle.

Even Roosevelt, the most candid of the American imperialists, was obliged to give an ethical cloak to his imperial acts. "I am doing my best," he said in 1907, "to persuade the Cubans that if only they will be good they will be happy. I am seeking the very minimum of interference to make them good." Wilson had high authority for his political theology.

But the next fifteen years were to witness a great and wholesome change in America's concept of foreign policy.

CHAPTER IV

WHAT THE WAR DID TO AMERICA

WHEN the German armies entered Belgium in August 1914, the American people felt as though they were witnessing a gigantic sporting event. Whatever the rights and wrongs of the situation, they, at least, were not concerned. It would be the match of the century; both contestants were reported to be in fine form.

"I venture, therefore, my fellow countrymen," said President Wilson in those days, "to speak a solemn word of warning to you against that deepest, most subtle, most essential breach of neutrality which may spring out of partisanship, out of passionately taking sides. The United States must be neutral in fact as well as in name during these days (sic!) that are to try men's souls. We must be impartial in thought as well as in action, must put a curb upon our sentiments as well as upon every transaction that might be construed as a preference of one party to the struggle before another."

And ex-President Roosevelt, who was soon to become a passionate partisan of America's moral obligation as guarantor of Belgian neutrality, wrote in the Outlook of August 22, 1914:

"I am not taking sides one way or the other as concerns

the violation or disregard of these treaties [those guaranteeing the neutrality of Luxemburg and Belgium]. When giants are engaged in a death wrestle, as they reel to and fro they are certain to trample on whoever gets in the way. . . . A treaty, unless potential force is back of it, *is not worth the paper it is written on*." (Italics mine.) And on September 23: "It is certainly eminently desirable that we should remain entirely neutral, and nothing but urgent need would warrant breaking our neutrality and taking sides one way or the other."

It was natural enough that the United States should have this feeling of an onlooker at an international prizefight. Her political relations with the outside world (save those countries immediately contiguous or within two days' sailing distance of her ports) were of slight consequence. She was economically almost completely self-sufficient; she had invested some two or two and a half billion dollars in nearby countries and had borrowed some four and a half billion from distant countries. She had a vigorous production plant, both in farm and factory, which would easily pay the interest on her borrowings and in addition send some $150 million annually to the European relatives of her recent immigrants, besides giving her citizens $170 million to spend in seeing European cathedrals,—and in addition paying freight charges to foreign vessels on her exports. It was a flourishing, self-sufficient and self-satisfied country which gazed on the outbreak of the World War.

Its policy of the *Freedom of the Seas* was still in full

bloom, as befitting a nation which had a relatively small navy and a very small merchant marine and needed every trade advantage it could get. It had but few reservations as to immigrants, for it still needed many laborers to help it pay its debts. It preserved its high tariff congenial to a nation with vast resources and more conscious of its need to export than to import, and sought any reciprocity arrangement which might encourage exports. It had begun to see the attractiveness of distant markets, and demanded an unobstructed highway to them, while it sought to secure predominantly to itself the markets near at hand. It had, with its growing naval strength, maintained the *Monroe Doctrine,* and extended it to include its right to veto not only military invasion but any invasion at all. Finally, it had revised the "Let me Alone," or *Isolation,* doctrine to suit its local needs. "Don't touch me," had come to mean, "Don't touch me or my family," and the family included Caribbean America.

No one in America, from the President of the United States down, realized what the World War was going to do to the United States. "These days," as Wilson called them, lengthened into months and years. America presently came to realize that the doctrine of *Isolation* was an illusion.

There was a discouraging slump in business as "these days" stopped European imports from the United States. But Americans became happier as the Europeans began to order war materials, or their equivalent, from this country. The "war depression" turned into the "war

boom," as an unprecedented quantity of America's products were shipped overseas.

Yet speedily America came to realize that the *Freedom of the Seas* was merely a privilege of the piping times of peace. If an American shipper wished to send a cargo of cotton to Amsterdam, he must expect it to be seized by an English man-of-war and taken into the custody of a British prize court. The law of the seas was the English law and no other. Equally, if he wished to send a cargo to Liverpool, he must expect it to be sunk by a German submarine. There was no law of the sea, agreed to by the chief naval powers. The *Freedom of the Seas* was only an American hope. The American exporter made a mental note of this and waited.

America Turns the Corner

While Americans were impassioned over the doctrine of the *Freedom of the Seas,* an event of major historical importance was silently approaching consummation. The belligerent nations, chiefly Great Britain, before the war was six months old, realized that they could not finance it alone. It was not that they did not have the "money," but that they did not have a sufficiency of the things needed for war-making and were obliged to import them; yet they could not import these things by the ordinary process of exchanging merchandise for merchandise, for

all their productive effort was being devoted to war materials.

At first, to pay for their imports, Europeans began selling back to America the securities which they held in American railroads and other enterprises. Before the end of 1914 they had sold back about $400 million worth of such holdings. But this soon turned out to be a mere trifle. Hundreds of millions worth of further securities were sold back in reckless measure; the American investment market, now becoming rich in the "war boom," could absorb them all. Soon the British government was requiring its citizens to surrender to it their foreign stock and bonds for sale or for use as collateral for loans. Probably a thousand million dollars worth were sold in the year 1915, besides a thousand million dollars of gold sent to America.

But even this was a mere trifle compared with the demands of Mars. By September 1915, the governments had commenced to borrow directly in America. The famous Morgan loan for $500 million fell within this period. While America was diminishing its $4,500 million indebtedness abroad, it was rapidly adding to its credits of $2,500 million. At some time in the year 1916 the two elements met, and then crossed. The United States became a net creditor toward the world.

From 1914 to the beginning of 1917, on the eve of America's entry into the War, Americans had loaned abroad $2,375 millions to foreign countries, of which

about $1,900 million went to the Allied belligerents, and had repurchased close to $2,000 million of American stocks and bonds from Europeans. America's net financial position in respect to the outside world had improved by some $4,400 million in two and a half years. The greater part of the private loans to foreign governments was based on excellent security, chiefly that of American stocks and bonds deposited in America as collateral; and a considerable amount of such collateral was subsequently used in paying off these loans, in addition to the securities repurchased outright by Americans during the War.

By the early part of the year 1917 the Allies were financially getting to the bottom of the box. The Anglo-French "Morgan loan" of $500 million was secured only by the good faith of the British and French governments. The Federal Reserve Board had indicated a doubt as to the advisability of further loans to the belligerents under prevailing conditions. America, as a creditor nation, discovered a creditor's interest in preserving the solvency of its debtors. In the complex of interests which impelled the United States to declare war on Germany, this $500 million loan (which would have been of questionable value had the Allies been defeated) may well have been a powerful factor.

The direct motive was, however, provided by the threat to the American doctrine of the *Freedom of the Seas* contained in the German declaration of unrestricted submarine warfare. To preserve one traditional doctrine (al-

ready proven to be illusory in wartime) the United States scrapped another—*Isolation*. She entered into alliance, (or, in the official phrase, "association") with European powers, from which she was destined never again in fact to withdraw.

By the end of the War the American government had loaned to the Allies $7,077 million, and after the armistice loaned $2,040 million more, besides granting credits for $600 million for the sale of war stocks, and some $400 million for food and relief supplies, not to mention a vast amount of money in private charity. In all, including private and government loans, government credits and charity, and repurchase of American securities, the United States made available to Europe, within less than seven years, the sum of between $13,000 million and $14,000 million.

The Machine Produces 100%

Of all this sum, hardly a single dollar went across the Atlantic (on the contrary hundreds of millions of dollars in gold came to America). The entire amount represented American goods sent to Europe. Thirteen to fourteen billion dollars worth of American products, over and above what the American people needed for their own use!

In other words, the War stimulated the American machine and the American farm to their utmost productive

capacity. To the machine, an opportunity such as this is like the opportunity given to a full-blooded race horse to "let out" on the home stretch. The machine, in normal times, is constantly being reined in, to prevent it from producing more than the market can absorb (for this would mean "frozen inventories" and eventual bankruptcies). But under war conditions, there could be no conceivable super-production of war materials, and nearly everything that mankind could consume was in one way or another a material of war.

Accordingly, American production set a new world's record. It established a rhythm of production, both as to volume and as to efficiency, which had never been witnessed before. Efficiency, which had previously been a continual peril to steady market conditions, was now at the utmost premium. The government and the manufacturer now sought out every imaginable way to eliminate waste, to standardize products, to enhance the productivity of the worker, to stimulate the yield per man and per dollar invested.

According to Professor J. H. Williams, the physical production of American factories rose from 100, the average of 1909–13, to 109 in 1915; and was 128 in 1916; 126 in 1917; and 125 in 1918. This implied an enormous increase in efficiency per worker. But—and this is the point of cardinal importance—this efficiency rhythm persisted after the War. Mr. Ewan Clague's investigations for the United States Department of Labor revealed that, taking the year 1914 as 100, the 1925 index of man-hour

production in steel works and rolling mills was 153; in automobile manufacturing, 310; in cement making, 157.8; in flour milling, 139; in petroleum refining, 177.3; and in rubber tire making, 311. And he concluded:

"There is taking place in the United States today a new industrial revolution which may far exceed in economic importance that older industrial revolution ushered in by the series of mechanical inventions which occurred in England in the last quarter of the eighteenth century, and which eventually transformed English industrial, political and social life. We are at the present time experiencing what is perhaps the most remarkable advance in productive efficiency in the history of the modern industrial system."

This was one of the outstanding results of the War in world history. Commenting on this situation, Mr. Paul M. Mazur, a banker and critical observer of American commercial life, says in his book, "American Prosperity":

"It is possible—it is, in fact, probable—that the conditions which exist in industry today would have evolved without the impetus of the War. But certain it is that without the War the conditions of today would have been the order of the day many decades, if not centuries, removed. The War concentrated into a few years the slow fruition of decades of peace; and the process that was a tendency in the years before 1914 was an accomplished fact by 1925."

Another profoundly important result of the War to America was its transformation from a nation which de-

pended on others for the shipment of its foreign trade into one which carried a large part of its own commerce. Before the Civil War, the United States was second only to Great Britain in its merchant marine, and its famous "clippers" went to all corners of the globe. Subsequently it sank to a negligible position, possessing less than one twentieth of the world's tonnage, and most of this used in coastwise trade, which the American government guaranteed to it as a monopoly. The destruction of vessels by the German submarines obliged the United States to build without stint. The result was that the United States soon regained her position as second maritime nation of the world. In 1928 she possessed more than one sixth of the total shipping tonnage of the world, being again second only to Great Britain and far ahead of any other rival. Although shipping has been in a difficult position since the World War (with a third more ships and a fifth less sea-borne commerce) American shipping has not suffered disproportionately, and the position of the United States as a maritime power seems secure.

Stealing Europe's Markets

While Europe was fighting its war it had little surplus merchandise to sell abroad, save what it must absolutely send to pay for needed supplies of war material. Yet during this period the American machine was producing

what its home population needed, what the war needed, and still more. It had a surplus to ship abroad. Previous to the War European nations, chiefly Great Britain and Germany, had been the principal suppliers of merchandise and capital (goods on credit) to South America. In 1913 they sold to Latin America nearly half a billion dollars worth of goods as compared with $325 million sold by the United States. Great Britain's investments in Latin America totaled some $2,500 million, as compared with a mere $100 million of the United States. In 1927 American investments in Latin America totaled $4,800 million, while Great Britain's investments had unquestionably decreased, due to the sale of her securities to the United States in payment for war supplies. In 1926 the sales of Great Britain and Germany to Latin America were still close to the pre-War figure in dollars (one third less in actual value) while American sales had increased two and a half times. While American exports were but three quarters as large as those of Great Britain and Germany in 1913, they were almost twice as large in 1926.[1] The same story was repeated in Asia and in the outlying parts of the British Empire, and in general in all the neutral world. While Europe was occupied with war, America stole its markets.

Perhaps the most striking example is that showing what the United States did in the British Empire. These percentages showing the decrease or increase in imports

[1] Subsequently to 1926, however, Great Britain and Germany, especially the latter, have made notable progress in this field.

from Great Britain and the United States, respectively, are taken from B. G. de Montgomery's "Pax Britannica."

Share of Annual Imports	from Great Britain decrease %	from U. S. A. increase %
Canada	3.5	2.3
Australia	7.2	10.7
New Zealand	3.7	4.4
South Africa	2.3	3.4
India	4.0	3.0

To sum up, the War transformed the United States from a debtor into a creditor nation; stimulated her productive capacity to the utmost; restored her to the position of the second merchant shipping nation; and enabled her to conquer commercial and investment markets which Europe was obliged to neglect. Did it therefore, as is commonly said, make her "fabulously rich?"

No. The fabulous wealth of America is a myth. America is rich, but only normally rich. The only fabulous aspect of America's wealth is its continued "normalcy." True, the national wealth of the American people increased, between 1912 and 1922, from $186,300 million to $321,000 million. But if we allow for the increase in the world price level, the latter figure would represent only some $225,000 million in 1912 values, an increase of about 20% or 2% per year. The normal increase of national

wealth under steady conditions is between 2% and 3% annually. The significant point is that American wealth increased only normally, or somewhat less than normally, while European wealth and resources were decreasing mightily. It was this disparity in the *rate* of progress which suddenly placed the United States in an imperial position in the post-War world.

Indeed, Mr. Harvey E. Fisk, Statistician for the Bankers Trust Company, estimated that American national wealth, between 1913 and 1923, had increased (in terms of "1913 dollars") only from $200,000 million to $230,000 million, or but 1.5% per year, while the actual per capita income (due to increase of population) had actually decreased from $321 to $282. The famous war profits were concentrated in a relatively few hands. Rising prices and war taxes more than consumed the wage increases. The United States did not profit from the World War. But her productive plant was not seriously damaged and its efficiency was greatly increased; while that of Europe was definitely impaired.

The shift in relation may be seen at a glance: before the War the United States had a debit toward the outside world of $4,500 million and a credit of $2,500 million, and needed to import more capital than she was able to export. After the War she had a debit of $2,000 million and a credit of about $13,000 million. Before the War she paid $160 million a year to foreign nations for interest on their investments in America. After the War foreign na-

tions owed her $525 million yearly interest on the loans she had made them.[2] During the War period she had performed the prodigy of shipping abroad $23,000 million dollars worth of merchandise while importing but $11,000 million worth. She had become one of the two major shipping nations of the world and had captured a large part of the markets in South America and Asia previously controlled by Europe. And above all else, she had created for herself a habit of producing more than she could consume and attuning her entire economy and finance to that rhythm. Henceforth the need to export that surplus, in order to preserve the smooth flow of internal business, was to dominate her entire foreign policy.

[2] Owed, but did not very promptly acknowledge. The $13,000 million war debt was later shaved to a capital sum of some $6,000 million. America's prosperity did not become substantial until several years after the armistice.

CHAPTER V

WHAT THE WAR DID TO EUROPE

IN the year 481 B. C. the Battle of Salamis decided that the balance of world power was to pass from Asia to Europe. In Europe it remained for almost exactly twenty-four centuries. Then, swiftly, silently, like a thief in the night, it stole away across the Atlantic to America.

How did it happen? In a general way, of course, we know that it was "the result of the War." But was Europe really so crushed by war as to lose suddenly the predominance which its great wealth, its large population, its tremendous treasuries of scientific knowledge had gained for it through the centuries?

To the tourist it seems improbable. Here is Europe to-day more populous than ever, its productive plant restored and improved, its farms producing richly, its currencies again stable, its commercial processes once more smoothly oiled. The standard of living appears to be as high as before the War, and in some localities higher. Luxury is everywhere visible and night life is gay. People are working harder than ever. Savings deposits are large and increasing. How, one may well ask, is it possible to say that such a continent has been impoverished by the War?

If it were true that four years of intensive destruction by the most deadly machines which scientific ingenuity could devise had left no scar on Europe, then it would indeed be possible for the human race to regard war as merely a stimulating adventure. But the scar, or rather the crippling wound, however bravely concealed, is there. It is the purpose of this chapter to hunt for it.

It is necessary to understand, first of all, that there was nothing theoretic about Europe's war burdens. Europe's losses were not merely "financial," they were physical. What was destroyed by the War was not "money" but *things* necessary to prosperity and well-being. Europe has, after ten years, succeeded in replacing these things; but at a cost which has been fatal to its economic and cultural predominance in the modern world.

The reason why it is still difficult to appreciate the reality of Europe's war loss, is that this loss is expressed largely in terms of the national debt, that is, in terms of money. And money is such a fluid thing. And a debt, after all, can be worked off in the future. And so Europe's war loss does not seem to matter very much.

The Lost Shirt

This mystification of the public mind through the device of the public debt is not altogether accidental. In large part it is deliberately practised by politicians to soften the shock to the average citizen of the losses which

war makes him suffer. And after the war is over the mystification persists, blurring our perception of what really happened.

The national debt, in so far as it is composed of war loans (which is pretty much all it is composed of) is a trick. It has been largely successful in convincing men, against all the evidence of their senses and their brains, that what isn't is.

The bonds representing the war loans figure in ordinary commercial life as assets. They draw interest, they can be converted into cash; they can be deposited in the bank as security for new loans; and eventually they are refunded with accumulated interest.

The whole trick consists in this solemn treating of war bonds as though they represented assets. They do not represent assets; they represent liabilities and nothing else. They stand in place of wealth which has been destroyed. They pretend to represent something that does not exist.

That is where the war bond is diametrically different from the ordinary commercial bond. A bond for a thousand dollars issued, say, by a silk factory, brings a thousand dollars from a purchaser, representing things which he might have consumed had he wished. It is used to purchase raw silk. The silk is then converted into stockings and sold at a profit. Out of this profit the money is eventually returned to the lender with interest. At no point in the transaction has value been destroyed. On the contrary, the bond was good precisely because it stood

at every moment for valuable things actually existing.

But the money derived from the sale of war bonds is devoted specifically to the purchase of things to be destroyed. In theory the bonds represent the mechanism by which the war is "financed" and through which it will later be "paid for." In fact, the war cannot be paid for later, neither by this generation nor by the next. It is paid for on the spot. It is paid for every time a shell is exploded, a pair of shoes worn out in the trenches, a milch cow slaughtered for meat, or an able-bodied producer killed by a bullet. If the things which war consumes cannot be furnished on the spot the war cannot continue.

What happens, exactly, when a war loan is floated? I have a shirt which the government needs for one of its soldiers. So the government borrows a dollar of me and gives me a bond in return. It then buys my shirt from me with the borrowed dollar. After the shirt has been worn out unproductively in the trenches the government taxes me a dollar, whereupon it repays to me the dollar it borrowed in the first place. It all seems clear: I have just as many dollars as I originally had, and the government has no more debt than it had before the war. Only, somewhere in the process my shirt has disappeared. Four solemn financial operations to conceal the fact that I have lost my shirt!

Money, it should be repeated, has no value. It is that which represents value but has none. (Even gold, when used *as money,* is similarly valueless.) It is of no use

except as it is traded for things. It is merely a set of paper or metal counters to enable us to keep track of how large a proportion of the total available wealth each of us may rightly command. It performs in the game of life exactly the function which is performed by the chip in the game of poker.

With one difference however. The poker chip draws no interest. That is because poker players produce nothing. Money produces interest because the valuable things which it represents produce more valuable things or satisfactions. Each cow or *pecu,* which in early Roman times constituted the standard of "pecuniary" consideration, bred little cows. That is the only reason why our dollars in the bank breed little dollars. Interest represents the genuine increase in the real wealth which money stands for.

Money, therefore, represents value only when it represents things of value. When, as in the case of the war bond, it represents things which no longer exist, it is, for the national economy, as non-existent as stock in a gold mine that contains no gold. That it can, in an economic sense, be repaid, is a fiction; that it can earn interest is a still more shameless fiction. A dead cow breeds no calves and a war bond earns no interest. War bonds are distinguished from all other bonds by the fact that they represent, specifically and precisely, something that has been destroyed. A war debt is but the ghost of things long dead. It measures off a vast empty space in the national economy set aside for things that ought to be there but aren't.

The Food of Mars

Just what things, and how much of them, were destroyed in the World War? On paper the amount is unimaginable. To the end of 1919 the War cost totaled for the chief European belligerents nearly $200,000 million. "Adding the indirect cost, such as the destruction of property, loss of production and capitalized value of the human lives lost," Mr. Will Irwin estimated the total cost of the War at $337,000 million, of which about $300,000 million fell to Europe.

The total national wealth of the European belligerents on the eve of the War was estimated at $370,000 million. From this one would conclude that nearly the whole of Europe had been obliterated. Obviously there is something wrong in Mr. Irwin's estimate. What is wrong is that he calculates the cost in the constantly devaluating currencies of the belligerents and in the constantly increasing costs of commodities. The Bankers Trust Company of New York estimated the total cost of the War, "boiled down" to 1913 prices, at $80,681 million, equivalent at the present price level to about $120,000 million.

This, however, does not accurately represent the loss of wealth due to the War. To some extent the War was financed out of current effort and sacrifice. By reducing standards of living, by drawing on reserves of stocks and labor, the warring nations could find something left over

for the armies from daily production. The old man who went without a lump of sugar or cultivated a vegetable garden where his flowers used to grow, the women and boys who carried on men's work at home, the lady who continued to wear last year's dress, all fed the War directly from day to day. Sacrifice of current consumption was enforced by heavy taxes. It is estimated that Great Britain paid about a quarter of her war costs out of current taxation. Other belligerents taxed their people to a lesser degree.

But current taxation and sacrifice were inadequate. The remainder—more than 80% of the war costs—was provided by drawing on capital reserves. This did not mean merely investing savings in war bonds, or selling securities for American supplies. (As we have seen, the money expenditure in war is but a symbol of the destruction of real wealth.) It meant a partial destruction of Europe's wealth-producing plant. It was this which dealt the deathblow to Europe's world supremacy.

In what form was this capital wealth destroyed? It was destroyed, let us repeat, exclusively in the form of things and the power to make things. The list would include the destruction by use (without replacement) of tools, machines, roadbeds, rolling stock, and all conceivable articles of use from dishrags to motor cars; depletion of livestock for food; exhaustion of the land through forced cultivation and lack of fertilizers; and the direct destruction of the nations' best skill and labor power. To this list must of course be added the direct devastation of

territory, although this is estimated at but one per cent of the total.

Much of the loss took the form of diversion of labor from productive to destructive activities. Machines which are used up (even for peaceful purposes), and which cannot be replaced because the factory which makes them is diverted to the making of war material—such machines are capital wealth consumed by war just as definitely as is a motor truck destroyed by a shell. Considering the life of a machine as often not more than ten years and seldom more than twenty, and considering that west Europe was working its machines to the utmost and not replacing them save for war purposes, one might guess the capital loss in machinery at 25%.

The unreplaced consumption of stocks—the dynamos and dishpans which are essential to the life of a nation—must have been far greater. Perhaps the most striking impression received by the traveler in Germany just after the armistice was that of the acute lack of the common utensils and materials of daily life. All had gone to the army, and the factories had been too busy on war work to replace them. In Germany, after restitution to France of rolling stock seized, there remained not a single locomotive which could be sent from Berlin to Munich without apprehension, and hardly a single passenger coach which had its window panes and its door hinges intact.

The consumption of capital in the form of livestock could be demonstrated statistically. From 1914 to 1916, for example, the French supply of cattle decreased from

14 million to 12 million, pigs from 7 million to 4 million, and sheep from 16 million to 10 million—all slaughtered to feed the armies. In Germany the slaughter was worse. And neutrals sold their livestock in prodigal abundance to feed the belligerents. Denmark sold a third of her livestock to Germany (for German marks which later depreciated) before her government forbade further exports.

How Europe Ate Dirt

But Europe extravagantly consumed not only the produce of its farms, but the farms themselves. In an almost literal sense, it ate dirt. The supply of natural fertilizer diminished with the decrease of livestock, and artificial fertilizer could not be purchased because of blockade or of other demands on the national income. As a result the fertility of the land became exhausted. In France, for example, the production of wheat, rye and barley decreased by 58%, only some 12% of which loss can be accounted for by the German occupation. According to the estimates of the United States Department of Commerce, the production of grain in all Europe dropped by 23% during the War—from 4,800 million bushels to 3,700 million. This was not due, as might be supposed, to lack of available labor, for women and boys did the work about as well as men. And the proof of this is that grain production did not return to normal when the men returned to the farms. It was not until after eight years of

costly cultivation and fertilization that Europe's grain production resumed its previous level.

In an economist's estimate of a nation's wealth is included the presumed producing capacity of its citizens. By the destruction of men the War obliterated capital wealth in an even more direct way than by the devastation of fields and factories. At whatever figure one calculates the earning capacity of a young man, the total economic value of the eight million killed or missing runs into billions—to say nothing of six million wounded, many of them to be supported at public expense. France lost 57% of her men between the ages of 20 and 31, and Germany fully as much. The destruction of skilled labor showed seriously in the first years after the armistice.

A loss in capital wealth results in a diminution of income. It is impossible to demonstrate this diminution statistically in the case of the belligerent nations. But the magnitude of it may be inferred from one set of estimates. Four of the principal belligerents, Great Britain, France, Germany and Italy, possessed between them, according to these estimates, $270,000 million of national wealth in 1913. Their total war expenditures, including borrowings from America, were $70,000 million at 1913 prices, or a quarter of their capital wealth. These same nations had before the War a gross annual income of 13% of their capital, or $35,000 million. Out of this, $27,-200 million was currently consumed, $2,800 million was devoted to replacement and maintenance, leaving some $5,000 million for new investments representing a net

annual addition to capital wealth. Now assuming that immediately after the armistice these three nations went normally to work with the 75% of capital equipment remaining, they would derive a gross annual income of some $26,000 million, less than they had previously consumed. Some $2,000 million of this sum would be required for normal maintenance and replacement, and if the plant were to be extended and improved at the pre-war rate nearly another $4,000 million would further be deducted from the consumption allowance, which would now be only some $20,000 million, as compared with $27,000 million. Such a drastic reduction in consumption cannot take place without seriously impairing health and efficiency.

Of course the estimate of 25% for destruction or impairment of capital equipment may be too high. But on the other hand the productive plant by no means returned to full efficiency after the armistice. What with revolution, strikes, lack of raw materials, fluctuating currencies, trade embargoes, depressed purchasing power, inadequate transportation, and dislocation of the markets, the efficiency of Europe's plant was crippled for several years. So on taking all elements into consideration, the estimate of 25% may perhaps be allowed to stand as a rough indication of capital loss.

But this was not the worst of it. Food had to be procured at any cost. The feeding of the population was a first charge on the productive plant. But western, industrialized Europe (roughly including Scandinavia, Ger-

many, Austria, Italy and countries west), had not for a century been producing sufficient food for its population. In that century its population had increased from some 100,000,000 to 260,000,000, while its food production hardly more than doubled. Of the three basic grains, wheat, rye and barley, which constitute the overwhelming proportion of the food of the European masses, industrial Europe consumed before the War an average of 2,768 million bushels, but produced only 1,910 million. The remaining two-sevenths of its grain was imported from abroad in exchange for its manufactured products. But to buy this food (amounting to 90% of the world's surplus grain supply) Europe had to sell; it had actually to export its goods. And in the chaos following the armistice this was extremely difficult.

The second imperious need was the replacement of the shattered plant. Every penny that could be spared from the diminished income had to be devoted to replacing worn-out machines, repairing broken railway cars, making household utensils, importing raw materials, procuring fertilizers. Pinch and starve its population as it might, there was nothing left over for extension of plant or foreign investment.

At all events, if it could manage the first it would have nothing left for the second. But here the American dollar entered the scene with an imperial gesture. It was the $2,600 million of American governmental post-armistice loans and the $400 million of American charity which patched up the European plant and fed the most needy

of the European population until Europe could begin to grind out the bare minimum of its subsistence.

But, let it be repeated, it was not "money" which America sent to stricken Europe. Europe had plenty of "money" and was daily making more of it than the world had ever dreamed of. What America sent Europe in the post-armistice period was *things* to replace the things which Europe had destroyed—machines, food and raw materials of every description. In the years 1919 and 1920 the United States exported about $5,000 million worth of things to Europe over and above what she imported from Europe. These exports were financed largely by government loans and private charity and also by expenditures of American troops and tourists in Europe, by the sale of depreciating European currencies to Americans, by remittances of European emigrants to their families, by the transfer of gold, and to some extent by the further sale of European properties and securities.

But the true imperial gesture would have been that urged by Mr. Frank Vanderlip, then President of the National City Bank, himself one of the least imperialistic of bankers. He argued that more serious than the physical destruction of equipment was the dislocation of the entire economic system, each part of which required delicate adjustment to every other part. All portions of this great machine, he insisted, must be repaired simultaneously by means of long-term investments, and reëquipped according to a scientifically prepared and governmentally controlled plan. But any such grandiose scheme was

hopeless at the time. The United States had little experience in large-scale international finance. The American investor was still shy of venturing his money abroad. The American exporters thought only of filling specific orders financed piecemeal. The banks, too, seemed to feel that there could be no export difficulty when the potential market was so vast. And all were impatient to be rid of American government control. And so, too, were the European politicians. They were eager for American money, but they wanted to have the spending of it in their own hands.

Nothing could more clearly show the utter absence of any conscious imperialistic intent on the part of America at that time than this attitude of the businessmen toward the reconstruction of Europe. To them it presented merely a series of separate business opportunities, differing only in size and number from those before the War.

But Europe, seeking to reconstruct itself without a coordinated plan, slid along badly. Four years after the armistice the old world seemed to be headed toward complete disintegration. Production was still depressed far below the pre-War level; currencies seemed to be slipping toward utter devaluation; distribution was disorganized and food in many places was scarce; social and labor conditions were becoming exceedingly grave. By that time, America, or at least the American government, had begun to see the problem as a whole, and in the Dawes plan worked out the first reconstruction scheme

which recognized that all factors were interdependent.

It was not until this period, ten years after the outbreak of the World War, that the full extent of the economic dislocation, which gave America her imperial opportunity, became evident. At that time, judging from production figures collected by the League of Nations, Europe as a whole was 10% poorer than before the War; whereas if there had been no war, it would have been, at the previous rate of progress, 20% to 30% richer. And in the same decade America had become richer (making all allowance for changes in the value of money) by nearly 25%.

And America, without any conscious imperialistic intent, had been making the most of her imperial opportunity. While Europe, devoting all available goods to war and reconstruction, had been unable to export, America had established and extended export markets in nearly every neutral country; for example, she had nearly doubled her exports to Latin America, while Great Britain had lost 35% and Germany about the same. While Europe's international trade was 20% below the pre-War figure, America's was 20% above. While Europe had been devoting all available capital and savings to destruction and replacement, America had been placing productive loans in almost every country on the globe. And Europe was America's debtor to the extent of nearly $15,000 million. If the War had not occurred Europe would, judging by the pre-War rhythm, still be lending to America instead of borrowing from her.

The Permanency of American Superiority

With America's economic predominance thus established, one may well doubt whether it can ever be overcome. Very much of Europe's new equipment (as distinguished from replacement of the old plant) is built on American money, and most of the profits derived from it will be eaten up by interest charges averaging in the past some 7%. Europe is borrowing from America as heavily as it is loaning elsewhere. The old world has lost, at least for a long time, its power to command increasing foreign tribute.

But there is one more result of the War which is of more permanent importance than any yet named. Being obliged to live on a reduced income, as has been shown, the nations of Europe sought doubly hard to supplement that income at the expense of their neighbors. They reverted to a kind of mercantilism which has as its motto: "What I can take from you is so much gain to me." It is needless to explain that in the machine age this is not true; what I take from you leaves you poorer and hence a less valuable customer for my goods. The modern world, as has so often been repeated, is interdependent; if one part is crippled the entire machinery is hampered. But most of the European nations are trying somehow to get more than they give. Each tries to sell without buying. Along with this mercantilism has come the ideal of national economic self-sufficiency, especially in war ma-

terials. The ideal is hopeless of attainment in Europe, save perhaps in the case of Russia plus Siberia, some decades hence. But it would seem that the smaller the nation, the more solemnly the ideal is pursued. And along with the striving for economic self-sufficiency necessarily go preparations for war. Save for Germany, Austria and Russia, the European nations are more heavily armed today than before the War (certainly their armaments are far more deadly); and expenditure on armaments is steadily and almost universally increasing, further hampering productive capacity.

Certain European journalists are continually accusing America of some imperialistic plot against Europe, usually something far too subtle for the American mind to devise. But if America had been consciously and subtly imperialistic during the War, it would have devised exactly the policy which Woodrow Wilson promulgated, self-determination of small peoples. This policy has created twenty-seven trade barriers in place of the twenty before the war, and six thousand more miles of them.

Europe has thus been divided into an increased number of political and economic units, each more or less trying to block the others, just at the time when the strategy of successful machine production is calling for the expansion of the home market. Europe is continually complaining of the injustice of the American tariff, perhaps rightly. But, economically, the American tariff encloses and protects a market whose sheer size tends to make machine goods cheap; while the European tariffs cut up the mar-

ket into small segments, tending to make machine goods expensive.

It was Europe's misfortune that this should occur just when the machine age was coming to maturity under American control. It sets definite limits to the application of mass production to European economy. It makes it extremely difficult for Europe to compete with American manufactured goods, even in its home market. Whereas America is in a position to extend its market abroad, and hence maintain its competitive ability, Europe is having difficulty in catching up its old rhythm of production.

At the precise historic moment when the question, who should command the machine age, hung in the balance, America went into high; Europe went into reverse. That decided where empire would henceforth reside.

CHAPTER VI

CREDITOR IMPERIALISM

THE evolution of the United States in the years immediately following the World War was even more profound than that which she had experienced as a direct result of the conflict. The decisive change from debtor to creditor nation had taken place in 1916, but as usual in politics there was a lag between the facts and the mental adjustment to them. The United States emerged from the World War a potential empire in fact, but still a small trading nation in mentality. The story of the next ten years was a story of adjustment of policy to the new situation, under the pressure of the imperial dollar.

The situation at the close of the War was impressive. The United States had loaned abroad, governmentally and privately, more than $9,500 million and had repurchased American securities to the extent of $2,000 million more, representing (in addition to the financing of her own war) a net export of goods and materials. From being net debtor to the extent of $2,500 million, she was net creditor to the extent of nearly $10,000 million. From being under the necessity of paying the outside world $160

million annually in interest charges, she could now command an annual tribute of $525 million.

But it was not of such things that America was thinking. It was simply of trade. The War had been in its view, like the Spanish War, a moral crusade, an exceptional thing, having no organic relation to American history. It had entailed governmental price fixing, rationing of materials and shipping, limitation and taxation of profits. The end of the War meant to America liberation from all such restrictions, and freedom to use the enormously speeded-up productive equipment for private profit.

But it was all to be done in the old way. No special study of the market; no particular provision for credit; no concern for the fact that the purchasing power of most of the world had collapsed.

This psychology of the aggressive trading nation, seizing every opportunity but dodging every noncommercial committment, dominated American politics. The War was over; its temporary and accidental associations had ended. The United States rejected a virtual alliance guaranteeing France against aggression; she rejected participation in a European league of nations; rejected all responsibility for Europe whatever. The accident of war having passed, isolation again became the rule of the life.

But while the American people was shrewdly right in rejecting entangling alliances which would give their

support to one European nation as against another, they were wrong in supposing that a creditor nation could be indifferent to the welfare of Europe as a whole as it had been when it was a debtor. Having rejected Mr. Vanderlip's proposal that they deliberately and planfully use their economic power to reconstruct Europe as a whole, they necessarily returned to the old isolationist attitude of awaiting the pressure of events—the pressure of the imperial dollar.

The international market had collapsed with the signing of the armistice. Not everywhere, of course, for while Europe had been recklessly burning up its purchasing power its colonies and the nations of South America and Asia had been accumulating wealth. But with Europe's collapse, the balance and life had gone out of international trade.

Yet this breakdown did not immediately become evident. On the contrary it seemed as though the War had been succeeded by a super-boom. Although Europe had no purchasing power left, trade between Europe and America flourished. For two reasons: the American government extended some two billions of dollars of credits to Europe with which to buy American goods (supplemented by tens of millions of American private charity); and Europe, by inflating its money, stimulated a fictitious prosperity which really meant the selling of its patrimony in exchange for American wares. Meanwhile, prices in America were rising and purchasing was intense.

The Surprising Lesson of Deflation

America, by selling to Europe on credit, had managed to delay the appearance of that collapse which was necessarily a result of the War. But when American credits were exhausted (in September 1920) the crash was fated. Long before the crash came it was evident that the boom could not go on indefinitely. For it was one of those booms which are based on rising prices. A boom based on increased production, generally distributed, is healthy. But the boom which typically precedes a financial crack is based not on the rising quantity of products but on their rising price. Such was the post-War boom which preceded the crash of 1920.

There seems to be evidence that the inevitable world deflation was anticipated and hastened by the American Federal Reserve Board. It is indeed frequently asserted in Europe that the Reserve Board, in a crisis, can fix the world price level. If on this occasion it helped to do so, before the price level had become still more fantastic, it performed a statesmanlike service for the world and demonstrated America's power to control international events.

The sudden deflation—reducing the price level from 250 to 150 (100 being the 1913 level)—was painful to everybody. To America it seemed even more painful than to Europe, because America had more goods "frozen" in inventory. Four million American employees were out of work.

The first conclusion which American business inferred from the deflation was that labor too must be "deflated." Labor—strongly organized in the absence of immigration during the War—had prospered *pari passu* with the prosperity of the country. But now that the country was in a bad way, labor must accept its share of the sacrifice.

Labor, however, objected to being "deflated." And before the employers could get around to deflating it by force an extraordinary thing happened—perhaps one of the most extraordinary and significant things in the history of the world. *Because* labor was not deflated, business picked up.

"Since 1920," says Paul Mazur in his book, "American Prosperity," "average wages have declined from an index figure of 235 to an index figure of 233. So it can fairly be said that wages are still high. In terms of purchasing power they are, indeed, discovered to be actually much higher as soon as it is realized that in that same period commodity prices have declined from a peak index figure of 247 to one of 149½." In other words real wages in America increased. The American worker, instead of being "deflated," was actually paid more, in purchasing power, for his work than ever before. And this power of the American worker to purchase the product of American industry rescued America from the results of a world crisis.

In a remarkably short time the huge unemployment slack had been absorbed. America entered a new period

of orderly prosperity so persistent that men began to marvel.

From that day since, there has been no more talk of deflating labor. There has been no more talk of decreasing cost of production materials. The entire talk has been of increasing sales. If sales can be increased, production cost can be decreased by the application of efficiency methods and labor-saving machinery. If the market can be broadened the product can be cheapened. And the market can be broadened by paying the worker ever more for the work he does, and thus increasing his purchasing power.

The machine had at last triumphed. It had demonstrated that its ability to produce more implied the ability of men to consume more. It had begun to force into the slow wits of men the truth that mass production has no meaning without mass enjoyment. The American way was henceforth to be the machinery-way, the way of more goods and cheaper goods, fewer hours of labor and higher wages, the tireless extension of the material benefits of civilization to the man of moderate income, to the poor worker, and finally perhaps, even to the beggar.

There had been a period when the American employer justified high wages on the ground that they permitted him to pick the cream of the labor market, and so gain a competitive advantage over his rival. The crisis of 1920 convinced American employers generally that it was to the advantage of everybody that everyone should pay high wages. Thereafter it became a kind of moral im-

perative that high wages should be general, in order that purchasing power might be widespread. It may be objected that high wages have not become equally spread or generally balanced. But at least the presumption of the American business man has become revolutionized. He now takes it for granted that business prospers with the prosperity of the working class, not at its expense. Americanism has come to mean, not lower production costs but wider enjoyment of the good things of life.

America Becomes Empire-Conscious

Wider distribution became the driving power of American politics after the lesson of 1920 was learned. The dollar, having discovered the true strategy of the machine, began to force America into its imperial role.

In the years 1919–20 the United States had shipped abroad an excess of exports over imports of more than $7,000 million to feed the famished industrial system of the world, chiefly Europe. This was covered partly, as we have seen, by some $2,000 million of governmental credits; further by about $900 million of new American investments abroad; by large gold imports and by about $550 million of new purchases by Americans of securities held abroad, and also by tourist and immigrant expenditures.

When the world panic, and the consequent inflation of European currencies, shut off Europe's purchasing power,

the question of how Europe could be persuaded to buy became acute. For a time the South American and Asian markets offered an outlet. But Asia was politically disturbed, and South America was increasing its purchasing power only by so much per year. The gains in Latin America were large, but they were not adequate to absorb the super-production of the American machine.

It presently became evident that Europe must be brought into the American commercial system. But Europe, deprived of American government loans, could no longer buy. Therefore Europe must have new loans.

Loans and super-export are really the same thing. Loans cannot be made effective save in the form of tangible goods. And tangible goods which are exported without *per contra* payment are exported on credit, and therefore must be financed by means of loans. In fact, what is loaned is not "money," but the unpaid-for goods. The United States, then, having exportable goods over and above what she needed to pay for her imports and other debts, had "exportable capital." Because she could export she could make loans. Because she had to export she had to make loans.

America's foreign loans were the one means of financing the surplus export of its machine production. But large loans in Europe were not safe. Why? Because Europe was not politically at peace.

It therefore appeared to be an *American interest to pacify Europe* if it was within America's power. Was it?

The foremost of all the difficulties of Europe derived from the fact that the iron and the coking coal which the steel industry needed for production lay on opposite sides of the Franco-German border. Both nations had the equipment for the production of steel; neither could operate economically unless it could get the raw material which it needed from across the tariff line. For four years each had sought to obtain an advantageous arrangement at the expense of the other. The French industry had the bargaining advantage, because of its influence with the French government, which claimed huge deliveries of material from Germany under the Treaty of Versailles. The German industrials refused to accede to the French demands, and the French political power was thrown into the balance. The Ruhr basin, in which the major portion of German steel was produced, was invaded by the French armies (on the pretext that Germany had failed to deliver a few thousand promised telephone poles) and production in Europe's most important industrial centre was suspended for a year.

Here was a purely personal quarrel between two rival groups of industrials. But both groups had great influence over their respective governments and both were able to utilize their governments to fight their battles. What concern had the United States with this purely private commercial quarrel? Only this: that this quarrel cut the spinal cord of European production, threw the economic life of Central Europe into confusion, completed the ruin

of the currencies of some of Europe's leading nations and threatened the rest; and began to spread starvation, revolt and civil war.

To such a Europe the United States could not loan money—and therefore could not export her surplus goods. Unless this Europe were restored to economic health, the American machine could not function normally. Was there anything America could do about such a Europe?

At the beginning America had answered No. The moment the War was over the political mind of America had begun to withdraw from Europe. It had (because of its traditional defensive reciprocity doctrine) rejected any transaction with Europe about the war debts, because Europe had nothing to offer in exchange for debt remission. It had refused to become a party to the Peace of Versailles and had early withdrawn its army of occupation from German soil. The world, so far as America was concerned, could go its way without American interference or help.

But later, as we have seen, America came to realize that Europe was an essential market for American goods and capital. By the year 1922, when the Ruhr invasion threatened, America was thoroughly aroused to its interests. On December 29 of that year, Secretary of State Hughes made an unprecedented attempt to interfere in the internal affairs of Europe, when he said, in his New Haven speech:

"It is idle to say we are not interested in these problems,

as our credits and markets are involved. . . . There can be no economic recuperation in Europe unless Germany recuperates. There will be no permanent peace unless economic satisfactions are enjoyed. . . . We should view with disfavor measures which instead of producing reparations would threaten disaster.

"The situation calls for settlement on its merits. The first condition of satisfactory settlement is that the question should be taken out of politics. . . . The fundamental condition is that in this moment the merits of the question, as an economic one, must alone be regarded. Sentiment, however natural, must be disregarded.

"If statesmen cannot agree . . . why should not they invite men of the highest authority in finance in their respective countries? . . . I have no doubt that distinguished Americans would be willing to serve on such a commission. . . . Once this is done the avenues of American helpfulness cannot fail to open helpfully."

Premier Poincaré rejected this offer. He had the strongest army in Europe. And old Europe, he said in effect, could settle its own problems without American help. Less than a month later his army marched into the Ruhr. America waited.

Defensive Measures

Meanwhile, the United States had been readjusting herself to some of the implications of her new position in the world. She realized that her traditional attitude toward

immigration must be revised. The effect of immigrants had been to increase the productivity of the country. But the country was already super-producing abundantly; more immigrants, if economically employed, could only increase a volume of production for which the world market was limited, and if not economically employed could only depress the national wage level. The importation of immigrants and the importation of capital had been parts of the same process. The process was now reversed. Old immigrants were returning home in great numbers, carrying American capital with them to the old world; and nearly half a million Americans were permanently residing and spending their American money abroad.

The new immigrant quotas were fixed at about 300,000—less than a third of the pre-War average. The pretexts for this limitation were racial, social, political. But that the impelling cause was economic there can be no doubt. Nor can there be any doubt that the result was to raise the standard of living in America. This has been statistically—and, it would seem, convincingly—demonstrated. As we have seen, the total national wealth of a country increases but gradually. With a population increasing still more gradually, the per capita wealth and income have steadily risen. Unrestricted immigration, which would undoubtedly have quickly risen to two million a year, would necessarily have depressed the per capita average.

Along with this reversal of one of the oldest American

policies came the virtual reversal of another—although the public mind is not yet wholly conscious of the fact. This policy is the *Freedom of the Seas*. Americans viewed with resentment—and envy—Great Britain's power during the War to stop any vessels, and seize any cargoes, she chose. During the Civil War, the United States had done its best, with the limited power at her disposal, to do the same thing.

The *Freedom of the Seas* is a doctrine for a weak commercial nation with a small navy, which, not having the power to administer the seas, seeks to promote a law to do it for her. But once such a nation acquires predominant sea power, sea law is no longer a necessity, but a concession. It was not to protect Freedom of the Seas, but to acquire Freedom *on* the Seas (freedom to do what England had been doing) that the United States in 1916 announced, through the mouth of President Wilson, her intention of building "incomparably the most adequate navy" in the world.

The threat was definitely aimed at Great Britain. And Great Britain consciously accepted the challenge. Directly the War had ended, she began increasing her navy at an unprecedented rate. According to all historic parallels, a war for supremacy between Great Britain and the United States was inevitable.

But it was clear to everybody that the cost and the risk of such a war would vastly outweigh any conceivable material advantage which could be gained from it. And so rather easily, as such things go, the United States suc-

ceeded in getting Britain to become a party to the Washington Conference and in persuading her to scrap her former two-power naval policy in favor of a one-power policy—in other words, to accept parity with another power for the first time since 1588. As to capital ships, at least, this policy was promptly put into execution.

There seemed something mysteriously facile in the way the Washington government brought this to pass. It was partly due, no doubt, to a recognition on both sides of the very imminent peril which was impending, and partly to the fact that the United States was financially in a position to outbuild her rival. But it was also due to a more direct pressure exerted by the dollar. English exchange was then far below par and was in danger of sinking. It could not hope to regain its position as the standard exchange of the world without the support of the American Treasury, or the Federal Reserve Board, or both. And it was certain, as could be inferred from subsequent events, that the United States would not lend her financial support to a nation which was seeking to outbuild her on the seas. Diplomacy had a brilliant tactical success at the Washington Conference. But it was the strategy of the dollar which secured the triumph.

The American aim, however, was not the freedom of the seas. Senator Borah's suggestions that the United States negotiate with Great Britain to secure guarantees of the freedom she has traditionally claimed, have been

met with cold response from the State Department. What the American government wants is freedom to do, in time of necessity, what Great Britain has always done. If it can arrange with England always to exercise freedom *on* the seas together and jointly, the chief cause of Anglo-American rivalry will have been removed.

The new post-War conditions had also brought into the American strategic field a problem which had long been a major one with European powers—that of the security of supplies of necessary raw materials. Chief of these was petroleum; for although the United States was enjoying by far the largest current production on earth, experts said that her reserves were very rapidly being exhausted. Here the United States, although apparently so rich in oil, found herself at a disadvantage, and pressed her traditional policy of the Open Door. Asking no exclusive advantages for herself in this regard, she protested against exclusive advantages granted to other nations. She succeeded in breaking the San Remo bargain dividing Mesopotamian oil between Great Britain and France, later obtaining a share of the production for the Standard, as also in Albania and elsewhere.

Again, when the price of rubber (America's foremost industrial import) was multiplied to a fantastic degree by concerted action sponsored by the British government, Secretary of Commerce Hoover protested, and eventually the quasi-official price-control was dropped. In China the United States continued her opposition to exclusive concessions and favors.

The Imperial Dawes Plan

Meanwhile, Poincaré had gained in the Ruhr a victory that was complete. It was as complete as Napoleon's victory at Moscow.

Despite entire military success (or rather because of it) production in the Ruhr was virtually stopped, production in the French steel mills was crippled, German currency was utterly obliterated and French currency endangered, and something very like social anarchy began to spread from Germany outward. At last Poincaré begged the American help which he had so contemptuously rejected some eight months before.

The United States government permitted him to save his face. It permitted American experts to investigate the situation and to act on it in precisely the manner, and on precisely the terms, which Mr. Hughes had vainly suggested before the Ruhr fiasco.

The resulting Dawes Plan for the provisional payment of reparations was important for permitting Germany to begin producing on an economic basis, and therefore making possible wholesome relations throughout western Europe. But historically it is still more important as America's first intervention (however technically "unofficial") in Europe as a whole, as distinguished from her two interventions in Europe's internal quarrels. Although M. Poincaré set back Europe's recovery by several years, the world must thank him for permitting one thing to

be proved by concrete test—that Europe could not settle its major affairs without American help.

This help was given most delicately and "unofficially," and most effectively. Here American diplomacy was at its best. It was as far as possible invisible; it was completely realistic. "The merits of the question, as an economic one," were "alone regarded." The whole thing was done so smoothly that one was tempted to believe that the only share of the United States was in the lending of certain of its most gifted citizens. But they negotiated with a powerful weapon, the American dollar. It was not merely America's share in the relatively small reparations loan to Germany (although this share was vital) that counted. It was the promise of vast sums to come if an economic, non-political settlement were achieved. As Mr. Hughes had promised, the avenues of American helpfulness did not fail to open helpfully. Americans subsequently invested one and three quarters billion dollars in Germany, besides huge sums elsewhere in Europe as needed.

It was the United States, in her imperial capacity, who dictated the form which the provisional European settlement was to take. And it is important to observe that the active factor in this settlement was not the American politician, but the American banker represented by Mr. Owen D. Young (although not himself a banker). What forced the Dawes settlement through was the power of the American investment bankers to lend or withhold money. It was they who fixed the terms of an acceptable

settlement. For the international banker, by the nature of his occupation, looks at the facts on both sides of political boundaries. A few years later, another such banker was to achieve another of the brilliant successes of American imperial diplomacy.

Beginning with the year 1924 the United States had an opportunity to test the effectiveness of the dollar as a weapon to force political action where her interests were concerned. Washington decreed (unofficially, as usual) that Americans should not make loans to nations, or to citizens of nations, which had not funded their war debts. The threat of cutting the umbilical cord which bound Europe to Wall Street was sufficient to bring the debtors promptly to the conference table.

Following the adoption of the Dawes plan, the process of stabilizing European currencies was commenced. They were stabilized in virtually every case, save that of Soviet Russia, by virtue of the coöperation of the American government, the Federal Reserve Board, and the American investor. In some instances the Reserve Board manipulated interest rates so as to give the European government a chance; in others, a substantial private loan or revolving credit supplied the necessary security; while in other cases, like that of Poland, American citizens, nominated with the approval of the American government, took direct charge of the finances. European currencies would have attained stability in time, but without systematic American coöperation the consummation might have been delayed many more years.

The Imperial Settlement

By 1925 the United States had experienced the sensations of imperial power, and had made her principal adjustments to the post-War world. These adjustments involved an almost thorough revision or scrapping of her traditional policies. All these changes were conditioned by the new need to export the super-production of the American machine, and to protect the avenues of export.

Let us list these policies and what the machine age has done to them:

The Tariff: The policy of the high tariff, which one would have supposed would be the first to be scrapped when the United States became an exporter of industrial commodities, has persisted unimpaired. It is the only one which has. The reason is to be found in that surprising faculty of the machine to despise production costs if only it can be sure of an ever-widening market.

Isolation: Scrapped entirely. The United States will henceforth intervene anywhere in the world where the interests of the dollar are in question. No doubt in doing so she will quote old saws, in verbal harmony with ancient sentiments. But she will also quote modern instances, and will feel free to exert her influence wherever, and in so far as, she feels that she has something to protect.

Reciprocity: Scrapped as a principle, retained as a convenience.

Free Immigration: Scrapped. Immigration will henceforth be manipulated by the Congress, just as the interest rate is manipulated by the Federal Reserve Board, exclusively with a view to its effect on the domestic economy.

Monroe Doctrine: Retained and greatly enlarged. It now means that the United States asserts the right not only to forbid European nations to annex any portions of the western hemisphere, or to intervene there, but also the right to intervene herself in the most intimate domestic details of local government. In practise this right is asserted only in the nations and islands to the north of the Panama Canal.

Open Door: Retained with reservations in those territories covered by the Monroe Doctrine. Vigorously insisted on elsewhere.

Freedom of the Seas: Scrapped, in reality. No test case has arisen since the World War. But it is certain that the United States would no longer be satisfied with a universal juridical declaration that "free ships make free goods." Her interpretation of the freedom of the seas will derive from her power on the seas, or from the arrangements made with others who exercise power on the seas.

But there has arisen, since the commencement of the Panama Canal, a new practice, which may well be called a national policy. This has been termed the "Caribbean policy" and might well be called the policy of "the American Lake." It means that nowhere in Central

America or in the islands of the Caribbean will the United States willingly permit any foreign power to maintain any naval base, or preserve any interests which might lead to political intervention.

This policy, although local and restricted, has probably been the most active one which has occupied the State Department since the War. It is unprecedentedly stubborn. It has been the propelling motive for most of the acts of interference which have earned the ill-will of Latin America in the past ten years. These acts, narrated in intelligible detail, would occupy many volumes. They constitute an endless repetition of those referred to in a previous chapter. It is here sufficient to record that as a result of them the United States dictates the internal politics of Haiti, Santo Domingo, Nicaragua and Panama (in addition, of course, to Porto Rico and the Virgin Islands, which are her possessions) and in a general way dominates all other governments north of the Canal.[1]

Failure and Triumph

The long and bitter fight between British and American oil interests for control of deposits, and for preferential trade areas as well, was halted by an armistice. In this the two empires of petroleum agreed to divide the world between them: competition to the death, as in India, was to be ended; American interests were to have

[1] Except, of course, British Honduras.

the entrée to new oil fields like Iraq, and British interests to America; both sides appear to have ceased meddling in local politics, as in Mexico, and they have agreed that there is nothing immoral in buying from the Bolsheviks. The settlement is interesting as showing that it is possible for Great Britain and America to compose their most serious disputes if they will split the difference.

One American policy, the persistent non-recognition of Soviet Russia, seems inexplicable by any of the known principles of American foreign relations. Wholly abandoning Monroe's principle of considering "the Government *de facto* as the legitimate Government for us," the State Department has insisted that it would have no political dealings with the Soviet government until restitution was made for American property nationalized and debts repudiated. Pre-War holdings of Americans in Russia were not more than \$68 million; during the War a loan of a quarter of a billion was authorized for Russia, of which \$188 million was paid—much of it, however, to representatives of the Kerensky government after it had in fact ceased to exist. Although these obligations were formally repudiated in the heat of revolution, the Soviet government has always stated that it was prepared to make an adjustment, but it insists on its right to make counter-claims for damage in connection with American military operations against the Soviets, or at least to "negotiate as an equal."

No one has yet explained, officially or unofficially, how

American trade is promoted or American property protected by the non-recognition of Russia. It would seem strange that the United States should continue to be officially unaware of the existence of Russia, the only other nation in the world (if we except China) comparable to her in size, population and resources. And curiously enough, both are working toward the same aim—the cheapening of production and increase of consumption by the scientific application of machinery on the largest possible scale. But the one cherishes the dogma that this must be done by deliberate planning on a nation-wide scale, and the other the dogma that it must be done by untrammeled individual enterprise. And there is nothing which men will fight about so bitterly as their dogmas.

Doubtless this is the explanation, in the last analysis, of American non-recognition—this and the fact that the United States is the only nation in the world rich enough to afford the luxury of fighting about its dogmas. On December 6, 1923, President Coolidge said in his message to Congress:

"Whenever there appears any disposition to compensate our citizens who were despoiled, and to recognize that debt contracted with our government, not by the Tsar, but by the newly formed Republic of Russia; whenever the active spirit of enmity to our institutions is abated; whenever there appear works meet for repentance, our country ought to be the first to go to the economic and

moral rescue of Russia. We have every desire to help and no desire to injure. We hope the time is near at hand when we can act."

This was a clear invitation to negotiations, and was promptly accepted as such by the Soviet government. But the day after Chicherin's note reached Washington, Secretary of State Hughes gave to the press the following extraordinary statement:

"There would seem to be at this time no reason for negotiations. The American government, as the President said in his message to the Congress, is not proposing to barter away its principles. If the Soviet authorities are ready to restore the confiscated property of American citizens or make effective compensation, they can do so. If the Soviet authorities are ready to repeal their decrees repudiating Russia's obligations to this country and appropriately recognize them, they can do so. It requires no conference, no negotiations to accomplish these results, which can and should be achieved in Moscow as evidence of good faith."

There is reason to believe that Mr. Hughes (whose personal antipathy to the Soviet government is known to be bitter) issued this statement without consulting the President. It is unquestionably an unusual thing for a secretary to reverse, on his own authority, the clear policy of his chief. (In England such an act would have necessitated his resignation.) Senator Borah, chairman of the Senate Committee on Foreign Relations, had accepted the Coolidge statement in good faith as an offer of negotiations,

and had no reason to believe that the Soviet government's known attitude in the matter was unacceptable to the President. One can only conclude that here is the exceptional case of a major political policy being controlled, over a long period of years, by the personal sentiments of subordinate officials.

But in another instance the United States government handled a major dispute realistically and unsentimentally, and achieved one of the most conspicuous diplomatic triumphs of recent years. The old effort to "teach Mexicans to elect good men" (that is, to preserve public order) had given place to a dispute over the Mexican Constitution of 1917 as dealing with sub-soil rights. On the juridical side the dispute was highly involved, but in substance it concerned two points: the demand of the Mexican government that the ownership of oil lands by foreigners be transformed into a fifty-year lease; and the insistence by the government that title to such property be proved. The former issue was of little material importance, since any oil land will be exhausted in much less than fifty years; the latter was highly important, since there was reason to believe that many holdings had been irregularly acquired.

For years the issues were disputed between Washington and Mexico City, while civil war continued to devastate Mexico. At last there were signs that the State Department was getting into the same state of perplexed impatience which had occasioned its ruthless actions in the Caribbean. No doubt, had Mexico been weaker, the

United States would have taken military measures early in the dispute. But military action against Mexico would not have meant an "occupation," but a protracted and bloody war. Nevertheless the State Department continued to handle the dispute in the uncompromising manner which implies an eventual trial of physical strength. And finally, in 1927, the United States was very close indeed to war; there is reason to believe that American army commanders were expecting their marching orders at any time.

But during these perilous days President Coolidge was having frequent conversations with his friend, Dwight L. Morrow, of the firm of J. P. Morgan,—the very type of "financial imperialist" who has been so often dramatized as the arch-villain of international politics. We can infer from subsequent events what Mr. Morrow must have said to Mr. Coolidge. It must have been something like this:

"You are, if you do not change this policy, going to be drawn into war with Mexico, chiefly in defense of the oil lands of one man, Harry Sinclair (since most of the other American oil owners have accepted the Mexican terms). If you do, you will complete the ruin of the country and make oil profits, or any other profits, impossible for years to come. Oil is not the only interest which we have in Mexico. Our total investments come to a billion and a quarter dollars, of which probably half a billion are not in oil. More than half of the total amount must be written off as valueless under the present conditions

of anarchy. Mexico annually buys a hundred and fifteen million dollars worth of American goods, and could easily buy twice that if she were prospering. Besides, if I may be permitted to mention it, my firm has lent a good many millions of dollars to the Mexican government, which will be unable to pay, when the present moratorium expires at the end of this year, if the present state of things persists. If we would look at *all* the American interests involved, and not only those of a few individuals, we might reach a settlement which would be satisfactory all around."

Mr. Morrow was commissioned to try, and the State Department promised to support him. With amazing speed, the settlement was reached. The Mexican Supreme Court (perhaps not uninspired by the government) declared the oil-lease law unconstitutional as being confiscatory, and the law was withdrawn by the government. The New York bankers extended further loans to take care of the interest due and to tide the government over the reconstruction period. And the Washington government gave its cordial support to Mexico City.

This settlement, apparently so simple, deserves closer analysis. In reality, both points at issue were settled, or rather traded one against the other. Mexico granted the United States its contention on the confiscatory nature of the oil decrees. The United States granted Mexico its contention as to its right to inspect titles. The United States won a not very substantial public victory; Mexico, a very substantial private one. And Washington in effect

served notice on American oil owners that, in Walter Lippmann's words, they must "either accept the law, or, if they choose to fight, fight without diplomatic or moral support of the [United States] government."

It is remarkable how swift and complete could be a settlement by mutual concession based on realities. While there were still reserved minor points for negotiation, the great problem of peace beyond the Rio Grande was solved. The Mexican government was, consequently, now morally strong enough to handle the religious rebellion and the subsequent army *coup* with its own resources. The United States government, instead of dreaming of imposing civil peace by military invasion, enabled the Mexican government to do its own pacifying. And, it should be noted, this humane settlement was achieved by abandoning all concern about "good men" and "Bolsheviks," and looking only at the material issues in dispute.

The Mexican settlement was, in essence, imperial in character, according to the definition which will be proffered in a subsequent chapter. It respected the separate identity of Mexico, but insisted on the safeguarding of those interests (and only those) that were essential. It achieved its end not by military means (which are of minor utility in imperial expansion) but by financial power. In short, the imperial technique, once given an opportunity, worked smoothly and effectively.

But there is one more fact to prove the imperial character of the settlement. Great Britain, who during the

years of anarchy had been a diplomatic power in Mexico and had often opposed American interests, was eliminated as a diplomatic factor. Henceforth, in all major matters, London will approach Mexico through Washington. The Mexico City *Excelsior* had an understanding of this fact when it lamented, according to Ludwell Denny, "that European capital, formerly so strong there, was now afraid to challenge the United States' policy of financial and political 'domination.'" "We find ourselves, then," continued the newspaper, "at the mercy of American capitalists, reigned over by bankers." (And, it might have added, facing for the first time in nearly twenty years the prospect of an orderly and prosperous development.) Because of the Morrow settlement, Mexico was definitively drawn into the exclusive orbit of American empire.

The newspaper, *El Universal,* also understood the situation. "American imperialism," it said, "is a fatal product of economic evolution. It is useless trying to persuade our northern neighbors not to be imperialistic; they cannot help being so, no matter how excellent their intentions. . . . Let us study the natural laws [of economic imperialism], in the hope of finding some method by which, instead of blindly opposing them, we can mitigate their action and turn it to our advantage." If it had written, instead, "mutual advantage," it would have stated the whole case for imperialism. The first of the rights of a small nation is the right to make fair terms with a big one.

CHAPTER VII

WHAT IS EMPIRE?

"THE Roman Senate and Titus Quinctius (Flamininus), proconsul and emperor, having conquered King Philip and the Macedonians in war, declare the following peoples free, without garrison or tribute, in full enjoyment of their own laws: the Corinthians, Phocians, Locrians, Euboeans, Achaeans of Phthiotis, Magnesians, Thessalians and Perrhaebians."

In this quotation, taken from Professor Tenney Frank's admirable "History of Rome," I have assumed the liberty of altering one word. I have changed the Latin *imperator* to its English equivalent, "emperor." But who, the reader will ask, was this generous Emperor Flamininus? We never heard of him! Was he a usurper, or did he come after the date at which our history books stopped?

The Emperor Flamininus was simply a young Roman general, appointed proconsul for the war against Macedon, and temporarily invested by the Senate of the Roman republic, as was customary in such cases, with the *imperium,* or delegated power. By virtue of the *imperium* he was *imperator* or emperor. To the Romans, that was all there was to the business of being an emperor.

And what territory did this emperor govern, what tribute did he command? None whatever. His power included the power to renounce. In the Roman view Flamininus was none the less an emperor because he renounced territory and tribute. He could have taken them, in the name of Rome, had he so wished. And that was all there was to the business of empire.

The Roman *imperium* in Greece is commonly and rightly dated from the year 196 B. C. in which Flamininus launched the above proclamation. Yet it was a century and a half before central Greece became a tribute-paying province. Throughout that period Rome claimed no sovereignty of any sort, nor any financial or military obligations save those which might be agreed upon by individual treaty with the several states.

It never occurred to the Romans of this period that empire implied political sovereignty or right of taxation. It might or it might not, but that was according to individual circumstances. The fact of empire was established by the fact that Rome could impose or refrain from imposing them, as she wished. And for the most part she refrained.

Yet no historian would assert that on this account Rome's empire was any the less real. Rome drew a sharp distinction between the *nation* (as we should call it) in which all free inhabitants were citizens and subject to the national law, and the *empire,* whose members were free save as treaty undertakings imposed mutual obligations. This distinction is as true today as in the year 196

B. C. Empire has nothing to do with political sovereignty. It is a political relation peculiar to itself. As the Romans so clearly understood, what distinguishes empire is not any one political form, but the *substance of power*.

This question of what constitutes empire is today a very concrete and important one. Ten years from now politicians will be calling it a burning issue. The fact that there is an American empire in process of evolution is one of those secrets which we all know but don't like to mention, just as we all know where babies come from but don't explain about it at dinner. We may as well get over our prudishness and recognize that there is nothing obscene in the fact of empire.

But what will the American empire be like? Will it be a kind of international theft, like snatching a lady's pocket-book? Will it mean the exploitation of weaker peoples, or will it mean the extension of American opportunity and standards of living to the less fortunate nations of Central and South America? Will this coming American empire be welcomed or cursed by the nations gathered within it? Will the world call it civilization, or oppression?

Caesar and His Domain

What is empire? The popular American answer to this question would certainly be most vague. If fifty distinguished citizens were invited to propose a definition, per-

haps no two answers would be even approximately alike, and the variety of the answers would surpass the inventive ingenuity of any one of them to imagine. One has a secret malicious desire to circularize the officers of the American State Department with the following questions: 1) What is empire? 2) Is there an American empire? 3) If so, what is it?—the one condition being that they should not consult Secretary Stimson before replying.

The popular American notion of empire is largely a *mélange* of slogans and images. Empire is the tyranny of strong nations over weak ones; exploitation of backward peoples; invasion of sovereign countries; forcible annexation; hegemony over a continent; punitive expeditions; Amritzar massacres; black slaves on Congo rubber plantations; the biggest navy; administration of local customs receipts; the landing of the marines. Any or all of these phrases and images may mingle in one's instinctive definition of empire according to the particular ideas which one has inherited.

And what answer has History to give to the question?

History has every conceivable variety of answer to give. The imperial relation may vary all the way from utter, serf-like subordination to the imperial power, to virtual independence. And not merely from one age to another, but concurrently in all ages, ancient and modern.

The Roman empire is popularly regarded as the classic example of efficient civilized tyranny. But what is the fact? The Roman empire, at any period between the

first tentative expansion of the tiny city-state and the universal dominion of the Antonines, showed a variety of imperial relation as wide as that of the British empire today. The early Roman Federation which followed the Latin League was a defensive military alliance over which Rome claimed no right of administration or taxation. The inhabitants might enjoy full or limited Roman citizenship, or merely Roman protection. They might be bound to limited or unlimited military obligations in time of need. Only for strictly military purposes was conquered land cleared and settled by Roman colonists. Even when Sicily was made a tribute-paying province after the first Punic war, the island was not "annexed." Some districts were utterly free; some owed merely limited military contributions; some paid a fixed moderate tax; and some paid "rent" for their own land. But all tribute was collected by the local authorities. Later the relatively barbarian provinces like Cisalpine Gaul were permitted to administer their own affairs unhindered so long as they kept the peace. The famous Roman law-giver entered the picture only where Roman treaties, or the rights of Roman citizens, or the death sentence were concerned. The Biblical narrative of the trial of Jesus sufficiently shows how reluctant Rome was to interfere with local justice and local customs.

The empire of the Caesars was yet more complex and quite as liberal. Instead of being, as modern imagination pictures him, a super-king, Cæsar was no king at all. The old republican institutions and procedures persisted;

the *imperium* which Augustus enjoyed was precisely the same as that under which Flamininus liberated the Greek states. Caesar was invested by the Senate with the *imperium* over most of the outer provinces (where the larger portion of the armed forces was necessarily maintained). Egypt he owned as private property, exactly as John Smith owns his farm. Armenia and Parthia were free, save that Caesar nominated their kings. In Judaea and Emesa he exercised the *imperium* by nominating the high priest. Over the allies Rhodes and Lycia he had no more constitutional authority than Flamininus had over the Greek states. In home affairs and in the inner provinces of the empire he could not legally meddle. Here it was not he but the Senate which governed, and he exercised his influence over the Senate merely by virtue of the various republican offices which he held. Like Pericles, he was here only the first citizen of the state.

By the time Diocletian sought to weld this diverse empire into a rigidly administered domain, complete disintegration had already set in. The moment the authority of Rome became direct it became ineffective. The Holy Roman Empire, which in the imagination of the intellectuals of the age continued the empire of the Caesars, was of a kind which even the flexible political mind of the Romans could not have conceived. For each village, one might even say each large farm, was economically and politically an independent entity. The political, or rather military, relations of one to another were assimilated to their economic relations, pyramided up through

ever larger federations to the emperor, who was himself only a super-landowner.

But when gunpowder made it possible to demolish the feudal castle, the centre of the farm-nation, the nation-state came into being with a more or less continuous central administration. And when exploration opened up new territories for imperial exploitation, the new nation-states sought to extend the centralized administrative technique so recently learned. Thus Spain, Portugal, Holland, France and England conquered and annexed the Americas. With a difference, however. Spain and Portugal treated the new land like a Roman maritime colony, to be settled by an élite from the home country and governed autocratically through it. Holland treated her American colony much as the Romans treated Cisalpine Gaul, establishing strong military and trading posts and letting the natives do as they would so long as they kept the peace. France sought peaceful penetration by traders and missionaries. England, systematically clearing out the natives, colonized the region with her most adventurous sons and daughters.

Holland sold out under duress to England. France was easily overcome. The dominion of Spain and Portugal lasted for some centuries, inevitably to be overthrown when the colonies in the new world had reached a certain degree of local vigor. England had to face a revolt of her own children. And this revolt convinced her statesmen that empire is something distinct, and different in quality, from national expansion.

With the grant of self-government to Canada in 1849, the British empire started on the road leading toward virtual freedom for its colonies—the road which Rome traveled in the opposite direction. Indeed, so far has the process gone since the War that the dominions, such as Canada, are now independent for all practical purposes. Canada pays no tribute or taxes to the mother country; she is free to fix her own tariff schedules, even to the point of barring British goods; she is not bound to go to war in defense of Britain, and may maintain friendly relations with Britain's enemies if she chooses. She is legally free to conduct her own foreign relations; she now maintains her own minister at Washington. The Governor General of Canada is bound, as is the British crown which he represents, to accept the advice of the parliamentary ministers. At the other end of the scale are such dependencies as Gibraltar, autocratically ruled by an appointed governor. Between the extremes one finds every gradation of self-government (including that in the mandated territories), from the freely elected but non-responsible parliament of Bermuda through various types of legislative assembly or council in which part or all of the members are appointed by the governor. Egypt and the Sudan are technically free and independent, bound to Great Britain only by certain "reservations," chief of which is Britain's right to maintain troops on their soil. Yet the British empire is more secure in Egypt and the Sudan than in many other portions of the imperial domain.

One might examine other imperial systems, including the newly discovered "financial imperialism" practised by capital-exporting nations; yet one will always find the same disparity in governmental forms, and the same baffling quality of change and fluidity. For empire, like all other human relations, is not a condition but a process.

A Definition

And what is the common denominator of this process? It is not assimilation, or control of legislation, or imposition of tribute or taxes, or tariff privileges or reciprocity, or military obligation, or even control of foreign policy. Every type of government and every type of political relationship may find safe shelter under empire.

There is but one common denominator in all this variety. That is the one which the Romans recognized and which gave the name to their vast and flexible political system—that is, *imperium;* the power, effective or potential, of one nation over another nation or community. Search as you will, you will not find another characteristic which is common to all the instances which have been named.

Power, of course, is a very vague concept. It may range all the way from the influence exerted through friendly advice to tyranny over every act of an enslaved people. Nevertheless, it is possible to arrive at a clear and useful definition of empire.

But to do so, we must be a little arbitrary. So let us make two distinctions—let us rule out two types of political power as outside the definition.

The first is direct conquest and annexation. In the popular mind this is perhaps the most characteristic type of imperialism. Yet on second thought it will be seen to be something essentially different. The territory of Texas was for all practical purposes seized from Mexico by conquest and forcibly annexed to the United States. Yet no one would today speak of "America's Texan empire." The fact of annexation makes the annexed territory part of the national, not of the imperial, domain. For annexed-land becomes home-land, and no nation can be said to exercise empire over itself. France today has a wide empire, but Alsace-Lorraine is not part of it, by the very fact that it has been incorporated into the body of France.

It is only where there remains *some* local autonomy, *some* individuality and apartness in the province, that we can speak of empire. It may be objected that portions of the British empire retain no self-government whatever; but these territories are of trivial importance, like Gibraltar, St. Helena and Swaziland. Conquest and annexation belong properly to the nationalistic, rather than to the imperial, technique.

Strange as the statement may sound, conquest has played a relatively small part in imperial expansion. The Roman *imperium* in Greece was established not by fighting against the Greeks, but by fighting *for* the Greeks, at their invitation, against an alien tyrant; just as Ameri-

can influence in Europe was established by fighting on behalf of small nations against a threatening hegemony. British predominance in India was the result of a war not against the Indians, but against the French. And although British dominion was later extended as a result of many wars against native governments, the result of these conflicts was not the absorption of conquered territory, but more often a series of friendly treaties; just as the result of Napoleon's conquest of Prussia in 1806 was a friendly treaty which made Prussia an ally of France. The troops which suppressed the Indian mutiny of 1857 were largely Indian troops.

You may achieve *imperium* as a result of conquest or as a result of an amicable treaty. You may govern by continual and systematic interference, or by leaving the other nation entirely alone to fulfill its treaty obligations. But always there is and remains some distinctness between the two parties, some self-government and individuality in the imperial province.

But a second distinction is required if we are to draw a line between that vague influence which nearly every nation exerts over a weak neighbor and that quality of power which is empire. What degree of power constitutes the beginning of empire? It is, let us say, that degree at which the influence of one nation over its neighbor becomes exclusive with respect to any third nation.

When Prussia, as a result of the war of 1866, obliged Austria to keep hands off German politics, the German empire became a living fact. Before that date Prussia's

influence among the minor German states had been powerful but not exclusive. When a "sphere of influence" becomes exclusive, it becomes part of empire. Japan exercises empire in Korea because no other power disputes her influence there; but in Shantung, although her influence is recognized as "predominant," it is not uncontested and therefore is not yet the stuff of empire. Italy exerts great influence in Hungary; but England and France are also diplomatically strong there, and no one would speak of Hungary as part of the Italian empire. But in sovereign Albania, Italy controls finance, military organization and economic administration, and no other power attempts to dispute her influence there; therefore Albania, however independent technically, must be considered part of the Italian empire.

President Roosevelt said in December, 1902: "In the Platt Amendment we definitely took the ground that Cuba must hereafter have closer political relations with us than with any other power. Thus in a sense Cuba has become a part of our international political system." The effect of the Platt Amendment was to give the United States the exclusive right to intervene in Cuba to protect the island's independence or to restore internal order. It is the *exclusiveness* of that right that has made Cuba a part of the American "international political system," or, as we should now become accustomed to saying, the American empire.

Wilhelm, King of Prussia, it will be recalled, became Kaiser not because Prussia's influence over the other Ger-

man states had become greater, but because Austria's influence had become less. Wilhelm II was never Emperor of Germany; he was Emperor *in* Germany—a distinction which was of great importance to the kings of Bavaria, Saxony and Württemberg. It is related that at a meeting of German sovereigns in Berlin the Kaiser addressed his guests as "my loyal subjects." Whereupon some minor prince spoke up and said: "Not your subjects, Sire. Your allies, if you like." And Wilhelm accepted the snub.

Now, if on the one hand we exclude direct annexation, and on the other political influence up to the point where it becomes exclusive, we have arrived at a practical definition of empire. Let us formulate it as follows:

Empire is exclusive influence exercised by one nation over another politically distinct nation or community.

The Methods of Empire

If this definition of empire be accepted, what are the practical conclusions to be inferred from it? Let us suggest five:

First: the form of imperial bond is immaterial. Empire can function equally well with any, so long as the imperial obligation is understood and honored. Each case is distinct. Any flag may fly; empire does not care.

Second: Empire does not desire to absorb or administer the province. Empire does not, as a political process, as-

sume any moral mandate. The moral obligation to guarantee free elections, modern sanitation or personal honesty may exist, but it exists as a separate category of obligation, distinct from any contained in the imperial contract. Yet any of these obligations may, in individual cases, inhere as a political necessity deriving from the particular circumstances (e.g., the necessity of abolishing yellow fever in a canal zone).

Third: the existence of empire does not in itself imply any right to interfere in the internal affairs of the province. For imperial purposes, the utmost local freedom can obtain, so long as the imperial contract (whatever it may be) is duly honored. Imperialism by no means calls for local interference; on the contrary, the less interference the smoother and more satisfactory is the imperial relation. A province might continue for ten years managing its own affairs without the slightest hint or suggestion on the part of the imperial power, and yet be none the less an effective part of the empire.

Fourth: The imperial relation is sought for specific and concrete objects. As Charles Evans Hughes has said: "Statesmen who carry the burdens of empire do not for a moment lose sight of imperial purposes and requirements." What the specific object or requirement is—whether the military protection of a trans-continental canal, or the protection of investments, or the preventing of intervention by a foreign power, or the production of necessary raw materials, or the cultivation of a market for exported goods,—the measures to be taken are con-

fined to those required to attain the desired object. In other respects the province is regarded as a foreign country.

Fifth: It is desirable to obtain the imperial object as cheaply as possible. Military intervention, when not necessary to the attainment of the desired object, is clearly a waste of effort and money. The direct administration of the province is out of the question save in extreme cases. Any intervention which antagonizes the local population increases the difficulties and diminishes the benefits of the imperial relation. That empire governs most securely which governs least.

In sum, the substance of the imperial relation is not one-sided authority but mutual advantage, based upon the actual balance of give-and-take between the two nations. It is an unproved dogma of doctrinaire anti-imperialism that the imperial province is necessarily harmed by the relation. The honest British administration of justice as between the village money-lender and the small peasant in Egypt was a mercy to the mass of the Egyptian population; the export of bath-tubs, the promotion of steady industry, the provision of a dependable market for local products, may be substantially to the good of the greatest number. It all depends upon the manner in which empire is exercised. The more the province can be made to desire the imperial relation, the more successful is the imperialism. Such a relation must usually come as the result of enlightened bargaining between the two

sovereignties. However inferior one of the bargainers may be in strength, it has a right to be regarded as an independent party to the contract.

In other words, if the proposed definition is sound, an empire is not so much a swollen sovereignty as a particular sort of league of nations. It is, primarily, not a series of conquests but a series of treaties.

It would be absurd to infer that force is no element—that an empire is formed by congenial gentlemen sitting around a conference table. But the role of force in the maintenance of empire may be greatly over-emphasized.

As Alfred Zimmern has said: "Force is of little use in governing an empire. It must be available in the last resort, in an empire as in a municipality, but by itself it is almost powerless. You can do almost anything with bayonets except sit on them." The Boers of South Africa certainly did not come into the British Empire without the persuasion of force. But once forcibly in it, and being given a fair opportunity to bargain as to their right of self-government, they made the best of it, and they found that best so good that they loyally fought on the side of the erstwhile oppressor but twelve years after their humiliation.

Empire, in other words, must be sharply distinguished, both objectively and subjectively, from aggressive nationalism. Nationalism might be defined as force in effect; empire, as force in reserve. The true strategy of imperial policy is ever to diminish the area in which

force is appropriate and ever to widen the area of mutual advantage. Only that empire is secure whose members know they are better off within it than outside it.

The Humaneness of Empire

There is an extensive and courageous literature of imperialism which exposes the abominations of financial exploitation of backward peoples. Peonage in Mexico, child labor for sixteen hours a day in China, the cruelest kind of negro slavery in the Congo, all in European-owned mills and plantations—hundreds of instances of such inhumanity have been authenticated. And they are commonly presented as "typical examples of imperialism." The argument is familiar: the capitalist, looking for a profitable investment for his surplus funds, finds it possible to secure 15% or 20% on his money if he employs eight-year-old girls in China at ten cents a day, whereas he can hope for but 4% or 6% if he employs adults at the same work in England. Capital "knows no fatherland;" like water, it seeks the lowest level. By its very nature, financial imperialism endeavors to exploit the helpless and backward peoples of the earth at the expense, not only of such peoples, but also of the civilized and more highly paid workers back home.

Such is the familiar argument. But that does not end the story. An abomination is abominable no matter what name is attached to it. The cruelties of the early English

factory system were practised in the name of what we should today call "free individual enterprise." The massacres of Alva were perpetrated in the name of the Prince of Peace. Imperialism has its full share of atrocities to its discredit. But is the enslavement of backward peoples inherent in the conditions of imperialism?

Unquestionably, imperialism tends, especially in its pioneering stages, to utilize the immediate advantage to be obtained from exploiting and enslaving cheap labor. But imperialism also sets up a contrary current. Once it has, thanks to cheap labor, increased its production of goods, it faces the need of an increased market for those goods. It cannot for very long afford to keep its workers at the lowest possible stage of civilization.

An American investment bank finances, say, the construction of a water plant in a small South American city. It hires all the casual, barefooted, illiterate labor of the locality. But this same bank, let us say, is also carrying a large textile factory which is in distress because American stenographers have taken to wearing silk instead of cotton. It desperately needs a cheap foreign market for cotton goods. Now the president of this bank, if he has any of the imperial imagination, will say to the textile factory: "Gentlemen, there is your market."

And as the increase of local purchasing power resulting from American wages promotes the prosperity of the South American city, the increased commerce creates new opportunities for the construction company. The next time it will be paving; then it will be workmen's houses.

Dr. Julius Klein, in his book, "Frontiers of Trade," has given many an instance of such reciprocal prosperity resulting from foreign capital. Such instances are not exceptional, but are rather typical of the nature of the process.

But the construction company might object: "It is not my business to help somebody else sell cotton shirts. It is my business to get this job done as cheaply as possible." Its banker, however (being a "financial imperialist"), may reply: "Very well, but I am looking out for both my clients, and am pointing out how they can help one another. One of you is dealing with these natives as producers; the other, as consumers. But they are the same natives. *Your* interests may lie in getting the job done as cheaply as possible, and then getting out. But *I* must see to it that money invested down there creates prosperity for business in general."

The construction company's attitude is what is being called in this book that of the small-trading or nationalist mind; that of the banker, that of the imperial mind. The banker-imperialist may be no less selfish and grasping than the construction boss, but his profits come from more different sources, each related to the other. It is to his interest, if he can manage it, to fix an arbitrary minimum of wages down in that South American town, and to raise that minimum as quickly as possible—even if it decreases the immediate profits of the construction company which he is financing. It is a curious case of casting one's bread upon the waters, certain that after many days it will return (with interest).

The position of this imperial financier is characteristic of the position of an imperial nation. It is this: that it has not one, but a multiplicity of interests to promote and balance. It cannot permit one interest, such as oil or sugar, or buying or selling, to monopolize its concern. It must have regard for its own people both as sellers and as buyers; for other peoples both as producers and as consumers. It cannot entirely satisfy each; it must devise an equilibrium among all. That is why the imperial mind is more humane than the nationalist mind: it takes into consideration more human beings. In a nationalist, altruism is a virtue; in an imperialist, it is a necessity.

Those who would explain modern imperialism must take into consideration this fact: that it cannot long prosper by taking things from others; it must eventually seek to sell things to others. It must in its own selfish interest seek to provide others with purchasing power. In an early stage, imperialism will seek only to obtain cheap rubber; but soon it will try to sell cotton shirts and derby hats and phonographs to the employees of its rubber plantation. The counter-current sets in because imperialism is necessarily a selling concern. It is blessed to receive cheap rubber. But it is also blessed to give derby hats in exchange. The rubber company may prefer to get more rubber than it gives derby hats; it will call the excess, "profits." But the imperial economy will prefer to sell more derby hats than it buys rubber in exchange; it calls that a "favorable trade balance." The small trader finds it more blessed to receive than to give. But the imperialist

finds it decidedly more blessed to give than to receive.

The small-trader mind will never know what to do with imperialism. It can see only its own immediate profits, its own protective tariff. It will seek to sell merchandise without being obliged to buy, or to secure raw materials without being obliged to pay for them in purchasing power. But the imperial mind can have no patience with these small traders. It must, for its own prosperity, seek to balance the interests of buyer and seller, producer and consumer. Yet a nation can never do this until its electorate understands that such a course is to its ultimate advantage. And the electorate will never understand this so long as it guides itself by the ideals of a small trading community. That is why the first duty of an imperialist nation (like America) is to admit it.

Americans, of course, don't like to admit it. They would regard the admission as an acknowledgment of sin. They have inherited a series of slogans which sanctify the ideals of the small-trading community. They are glad to take advantage of America's imperial power. But they are ashamed to admit that they are imperialists. They are still afraid of their grandfathers.

But if Americans once admit the fact of American empire—the fact that America's selfish interests transcend the community and even the continent, and extend to all the ends of the earth—they will discover a problem which offers a rare opportunity to their evangelistic ardor. For the peculiar necessity of such an empire as America's is the necessity of maintaining peace. The problem of em-

pire is the problem of making others make friends with you. Imperial armies or imperial marines may accomplish something; but that something is only to give a mutual interest time to grow. If there is no mutual interest to grow, force is useless. And empire derives no advantage unless it succeeds in fostering a relation under which permanent peace brings the greatest prosperity to all. Nations may occasionally profit by wars, but empires can profit only by peace.

Empire confers a kind of power which is not given to mere nations. It is the power to be exclusively responsible for the welfare of other nations. It may be a power for good or for evil. There are many different ways of administering empire, and every one of them is good if it promotes human happiness. But the peculiar thing about empire in modern times is that the result does not depend upon the good intentions of those administering it; it depends upon their true understanding of *their own interests.* It is not good imperialists whom we want, but wise imperialists. The wiser they are, the more they will be impelled to promote the interests of the subject peoples.

The characteristic of national sovereignty is the power to declare war. The characteristic of imperial sovereignty is the power to impose peace.

CHAPTER VIII

BILLION DOLLAR IMPERIALISM

WHAT, then, concretely, is the American empire? In the restricted sense of the term "empire," the answer is simple enough. In addition to Alaska and Hawaii, which are territories presumably some day to become states, there are: Porto Rico, with quasi-territorial status, its citizens being citizens of the United States and governed by the Federal Government, although there is at present no presumption of future statehood; Guam and Samoa, parts of the Federal domain, directly governed by the Federal executive; the Virgin Islands, "purchased" by the United States from Denmark in 1917 for $25 million, and the Canal Zone ceded by the Republic of Panama in 1903.

The constitutional anomalies presented by these territories are characteristic of empire, which is wont to insist upon the fact and let the name take care of itself. The inhabitants of Porto Rico, although American citizens, apparently are not possessed of one of the rights inherent in such citizenship, that of hoping one day to share in the responsibilities of government. Guam, with its 14,000 inhabitants, and Samoa with its 7,000, would appear to occupy somewhat the status of the District of

Columbia. Whether the soil of the Canal Zone is American or Panaman is a metaphysical question which has not yet been resolved; for practical purposes it is treated as the private property of the American government. The 26,000 inhabitants of the Virgin Islands do not know who they are; juridically they are still men without a country. The practical difficulties raised by these anomalies are few. Juridical consistency is a matter of placid indifference to empire.

The Philippine Islands are known as American "possessions." The term has never had juridical definition. A Territory they are not. Their inhabitants are not citizens of the United States, and there is nothing on the record to indicate that they shall ever become voting members of the nation to which they "belong." In theory, they would seem to be a free people, temporarily promising to legislate their affairs in agreement with a governor appointed by the Federal government at Washington. The United States is still bound by formal contract some day to release them from all control.

Cuba is technically a free and independent sovereignty. But she has entered into a treaty with the United States whereby her foreign relations, political and financial, are effectually controlled by Washington. She enjoys the military protection which American citizenship would give, but not the full economic advantages.

However, Cuba enjoys a preferential tariff arrangement with the United States, which is contrary to the general American policy. The Philippine Islands, "pos-

sessed" by a nation which has no formal sovereignty over them, are within the United States customs wall, as is the metaphysical Canal Zone.

These inconsistencies, characteristic of all empires, are to be welcomed as proof that the American empire is treating each case according to the realities of the situation and not complicating its imperial relations with meaningless juridical disputes.

Over the republics of Haiti and Nicaragua, the government of the United States enjoys (as the diplomatic euphemism goes) military sovereignty sustained by the Navy Department and partially buttressed in the juridical sense by treaties, mostly negotiated under duress. The forms of local government are preserved; but the acts of the governments are dictated by Washington. Decidedly this is empire in its conventional sense.

Other nations are controlled, for all practical purposes, by means of control over their finances. Such a control of a government's income can of course be extended at will to control of each of its acts. Bolivia, by a contract of 1922 between the Republic and the Equitable Trust Company of New York, has placed its revenues in the hands of commissioners, the majority of whom are named by the bankers. Salvador, by virtue of the agreement of 1923, places supervision of its customs collections in the hands of an agent named by American bankers. Liberia, under the contract of 1917 with the Finance Corporation of America, places its entire financial system under the control of a Financial Adviser appointed by the President

of the United States, and agrees not to decrease its customs rates without the approval of the Fiscal Agent, which is the National City Bank of New York.

In all other countries of Central America, and in all Caribbean islands not the possessions of other powers, the virtual financial control is in American hands. Where formal instruments are absent, it is clearly established that no important loans may be floated with foreign nations, and when loans are needed they shall be placed in the United States on terms which the State Department may suggest or dictate. In effect, the United States dictates the policies of all the Central American and Caribbean republics through control of the purse strings.

The Invisible Empire

But this is the American empire only in its most restricted form. Beyond all this lies the substance of American *imperium*—that invisible empire which foreign nations are coming increasingly to fear and resist.

By the definition of empire which has been suggested—by the definition which makes Egypt part of the British Empire—Mexico, as has been shown, is now a part of the American imperial system. But south of the Panama Canal the entire South American continent is coming into imperial relations with the United States. United States citizens have more than two billion dollars invested there, three quarters of which is in the three

key countries of Argentina, Brazil and Chile. Before the War, investments of United States citizens in South America were minimal. England was the great lender there, with Germany a bad second. American investments in South America are now probably equal to those of Great Britain, and in some countries have surpassed them. It is certain that North American predominance will be established definitely within a few years.

But have such ordinary commercial investments anything to do with empire? Yes. Even when they do not touch the governments, they give employment to South American agents and businessmen who have a stake in the prosperity of the United States and who come to form a "pro-American party" in the country. Any domestic measure which might affect the United States is influenced, in its progress through the legislature, by the sentiment of these foreign-nurtured interests. The creation of material bonds of mutual interests is the very essence of empire.

The question of the imperial influence of the United States in Latin America came to a test in the Pan-American Conference of 1928. There was natural resentment over the conduct of the State and Navy Departments in Haiti, Santo Domingo and Nicaragua (as there also was in the United States Congress and electorate). But the concrete influence of the United States in each Latin country was such that no resolution of censure on her conduct could be passed. The United States is already strong enough to "divide and conquer." There can be

no question of any European power exercising such an influence over South America. The western hemisphere is already acquiescing in the spread of the hegemony of the United States. The organization of this potential empire and the mutualization of its benefits await a new era of history—and of statesmanship.

The Empire of Trade

Yet even more powerfully pervading than the direct empire of finance is the empire of trade. The United States has a foreign trade approaching ten billion dollars annually. This is close to the British total, but whereas Great Britain exports nearly half the exportable goods she produces, the United States exports but a tenth. The habit of buying American goods powerfully influences the minds of the purchasers. In times of crisis, these habits may be decisive. But the American trade empire is only about 40% in Europe. It is into South America and Asia that the dollar is pressing most vigorously.

More influential perhaps than current trade is the establishment of American branch plants abroad, and direct purchases into European corporations. It is beginning to be said that America owns the power industry of Great Britain, and a serious movement was begun not long ago to prevent American majority ownership in the British General Electric. It is becoming common in Europe to issue a majority of non-voting shares in key enterprises,

and to require by law that the voting shares be held by nationals.

Empire, as we have seen, is a fluid, intangible thing, and often most real where it is least tangible. So it should not be surprising that two empires sometimes overlap. Such is conspicuously the case in Canada. Here there are American investments of more than three billion dollars, and an annual trade of nearly a billion and a half. Some fifteen hundred branch plants of American firms are located in Canada, and Canada, in turn, has many in the United States. Such welding of interests cannot be without its social and political effects. In fact, there are many respects in which Canada is more American than British.

This does not mean that Canada is "breaking away from the British empire" or that she is ever going to be annexed to the United States. But it does mean that Canada feels two imperial influences (and is not necessarily the less comfortable on account of it). But if there should come a war between Great Britain and the United States, the position of Canada would be impossible. She would be obliged, at the very least, to adopt what might be called an attitude of "unwilling beneficent neutrality," actually supplying the United States with needed war materials such as nickel. If there should be the slightest suspicion of a plan to use Canada as a base of military operations, her chief cities would instantly be occupied by United States land forces—of which there would be an abundance in such a conflict. Canada has insisted on her right to autonomy in imperial foreign policy; her gov-

ernment has a minister to Washington. She would necessarily refuse to follow Great Britain into a war with the United States, and in any case will maintain her right to decide for herself in a British conflict. She has become, for practical purposes, an independent nation, heavily under American influence yet attached to Great Britain strongly by bonds of sentiment and blood. Australia has announced officially that she regards the American navy as a potential protection against Japan. Australia would be no active party to a British alliance with Japan.

One may call this, if one wishes, a process of dissolution of the British empire. But it is not that. It is only part of the remoulding of that empire to new conditions. It will have no political consequences unless Great Britain should become involved in war with the United States. Britain knows that this must be avoided, and that agreement with the United States on all disputed points must be the first aim of her foreign policy.

For not only is her empire not the same empire, but England is not the same England. Still mighty, she is not mighty in the old way. For the Channel, for the first time in her national history, is no longer a bulwark; the possession of sea power no longer guarantees her against attack. Twenty-one miles across the water there is France with the strongest air force in the world and a swarm of mosquito submarines. The submarine can sink England's warships and her food supplies. The existence of the Channel may be to England not a guarantee of protection, but a threat of starvation. To be drawn into a

life and death struggle with France would be a far more serious matter than in the days of Napoleon. This condition has led one party in British politics to favor a virtual alliance with France, involving English permission to France freely to pursue her own policy on the continent—a proposal which would never have been entertained in England before the War. But if Great Britain is not thus to be a complacent ally of the French, she must be sure of her friends elsewhere. An understanding with America—no formal alliance, but a complete agreement as to common action in all major issues—would be a precious re-insurance. And France, as her official press suggests, sees in the "Anglo-American empire" a fatal check to her nationalistic freedom of action. Thus America, by virtue of its invisible empire, comes to occupy a key position in world politics.

An Anglo-American understanding is sometimes presented in the European press as a kind of plot against Europe, and in the American press as a kind of plot against the United States. Yet it need involve no formal alliance; it implies merely a clear knowledge on the part of each empire as to how the other would act in each of the concrete major contingencies foreseeable. It is the necessary basis for any reduction of naval armaments anywhere, for any codification of sea law, and for any long continued usefulness of the League of Nations. And it is, of course, the one alternative to Anglo-American war.

Britannia and Columbia now rule the waves. It would

seem necessary for them to decide how they wish to rule. Anglo-American relations are like other relations; they will be more friendly after they have divided the family inheritance. But the United States is likely to be reluctant about coming to an agreement. Americans are incurably suspicious of English friendship. They are still hunting for Hessians.

As for the rest of Europe, the principal expression of American influence will continue to be finance. This instrument is more effective in carrying out national policy than one might imagine who has read his history in terms of armies and battleships. We have seen that finance was effective in forcing agreement with Mexico, when it was realized that military pressure would be utterly incapable of achieving the aim. It was the loan embargo which effected speedy funding of the war debts. It was the possibility that America would refuse financial aid in stabilizing the pound sterling which made it necessary for Great Britain to agree to a one-power standard. It is reasonably certain that the manipulation of American relief supplies in Europe just after the armistice played the most decisive part in checking the spread of Bolshevism. There is evidence that they were deliberately used for this purpose; it is certain that they were withheld from nations which had become, or threatened to become, Bolshevik, and that the understood promise that they would be furnished to others was a powerful deterrent to revolutionary action by the masses. Only in the case of

Russia has America's financial and commercial power failed to count effectively as an instrument of national policy.

It has been argued with great plausibility that the Federal Reserve Board now possesses the power, in certain junctures, to control or heavily influence the world's price level. If this be so, it means that the Board would have the power to throw whole nations, even continents, into commercial depression, involving wholesale bankruptcy and suffering, and then rescue them at will. This suggestion may be but a part of the widespread romancing about the Board which is just now fashionable. But, although no one really knows at present what the Board can do, no one can say with assurance what it cannot do. Whatever its power may be, there can be no doubt that the American government would not hesitate to utilize it for its purposes in time of crisis. And this mere possibility is a powerful influence in European politics.

Again, it is believed that the new Reparations bank may become a most important factor in European financial life—hence necessarily in European political life—even to becoming one day a bank of issue for a pan-European currency. And it is certain that the fortunes of the bank will depend in large degree, in time of crisis, on the action of the Federal Reserve (which, illogically enough, is forbidden by its government to be represented on the directorate). The potentialities of the Board's power through the bank are enormous; while they may

be disregarded in America, they are fully weighed in Europe.

Through such instruments as these the American empire will continue to have great influence in continental Europe. But since the withdrawal of the United States from the pact guaranteeing France, it has been her policy not to promote her aims by using one European nation against another, but to treat the continent as a whole. Her avoidance of the League of Nations was due to a shrewd perception that the doings at Geneva are not the result of "common agreement" but of a complex group of individual horse-trades. America's way of treating continental Europe as a unit is perfectly illustrated by the Dawes Plan.

Some day, especially if agreement has been reached with Great Britain, American influence may be decisive in preventing another European war (the materials for which are abundant in nearly every part of the continent). The Dawes Plan, with its outgrowth the Young Plan, does not mark the end of American influence on the continent. More dramatic achievements yet await the American empire. But, preventing European war, America must expect Europe to organize its peace. Tariff favors, international cartels, possibly large customs unions between European nations, will mark any lasting European reconciliation. At all such steps the small-trader mind in America will take fright. A new "menace" will appear, that of a European block, not to say plot, to combat American trade. The way in which this phenomenon

will be treated will be a test of the maturity of the American imperial mind. America can afford to take any such development calmly (for the world of trade is still large), knowing that in the long run a Europe which enjoys economic peace will be a prosperous Europe, and prosperity in the old world is a sure source of prosperity in the new. America can, indeed, well afford to foster it.

But it should be remembered that all the powers which America's financial strength confers are effective not only when and if they are exercised, but also and especially when they are held in reserve. Politics is mainly a business of foreseeing and averting an unequal trial of strength; its all-important moves are pawn moves, designed to gain tactical advantage against a possible attack. It is the what-might-happen-*if* which mainly controls diplomatic action. The fact that the United States has such huge reserves of strength permits her, in most cases, to get her way without coming to the test, or even remotely threatening to do so.

Billion Dollar Imperialism

America has an empire—that is evident. Whether America also has an imperial policy has not been made clear.

The United States has a broad and consistent commercial policy, consciously designed and aggressively developed. It is to force the export of American goods

to the utmost without lowering the American tariff. But the imperial policy seems to be still largely fragmentary, —an extension, under pressure of need, of various old traditional habits, as the Caribbean policy is an extension of the *Monroe Doctrine* under pressure of the need to defend the Canal. How the United States shall use all her imperial weapons, visible and invisible, and for what ends she wants to use them, are questions which this generation must think out and resolve.

Such a statement as that of President Coolidge, that "the person and property of a citizen [of the United States] are part of the general domain of the Nation, even when abroad," cannot be taken as a declaration of policy. It collides too sharply with the accepted law, or practise, that the person and property of a foreign citizen are subject to the laws of the nation in which he is residing. But even if such a policy were theoretically tenable, its promotion would waste political resources ineffectually.

To use the financial and military bargaining power of the United States to protect the American view as to the rights of her citizens abroad as against the view of the local courts would be to spend dollars for pennies. When the United States risked the possibility of war with Mexico to defend the sometimes questionable titles of a few individual oil men, it was jeopardizing the much broader interests of the American nation as trader and investor. When, as we have seen, the protection of these broader interests became the aim of the negotiations, the individ-

ual interests of the oil owners fell into their proper place.

It was not inappropriately that the policy of Secretary of State Knox was called "dollar diplomacy." It sought to protect each individual American dollar which was invested, or which might be invested, abroad. It led to endless detailed interference in the affairs of neighboring nations, and brought the ill-will of those who should be America's most willing clients.

The interests which America is defending today are not those of a dollar here and a dollar there, but of billions of dollars. These billions consist not only of specific investments, but of trade for years and decades to come, and all those intangible but precious assets known as good will and good neighborship.

The material interest of the United States is predominantly that of promoting her export trade. If there is one object above all others for which she should use her power, it is this.

If this premise be accepted, two consequences must be inferred. The first is that America's power should be used to promote purchasing power everywhere. The second is that it should be used to preserve peace everywhere.

Purchasing power is another name for prosperity. The prosperity of any potential customer, whether in Mexico, China, or Soviet Russia, is a vital interest of the United States.

Similarly, it is to the interest of the United States to prevent wars—not only wars against herself, but wars anywhere. There is no conceivable war anywhere in the

world which could add to her strength or fail to injure her interests. This is no platonic statement. There are some nations, such as Italy and Russia, of which it might be said that a successful war (if not too costly) would materially promote their national advantage. These are, in general, the nations which have not. But the nations which have, like the United States, are interested in enjoying the usufruct of their wealth without disturbance.

This interest in universal peace found expression in the Kellogg pact, signed by most of the nations of the world, "outlawing" war "as an instrument of national policy." The story of the advent of this pact in the world—the busy efforts of a handful of American idealists, the attempt of M. Briand to use the proposal to revive the old American guarantee of French security, the diplomatic fencing match between Washington and Paris, the embarrassment of heavily armed nations lest the pact contain hidden words which would give it practical meaning, the rush on both sides to formulate reservations which would prevent the necessity of scrapping a single torpedo boat or field gun—all this forms one of the most entertaining and enlightening narratives in recent diplomatic history. That the pact is popular—that it truly expresses the aspiration of the vast majority of the people, and especially in America—cannot be doubted. But a juridical instrument, such as this pact pretends to be, can of course have no force unless there is an accepted law and an accepted court to apply it. The pact will have validity just in so far as the nations formulate such law and accept the

jurisdiction of such a court, with full knowledge that it may sometimes operate to their disadvantage.

It is clear enough that general peace and prosperity are desirable. But one does not often read of the day-to-day choices which must be made to achieve them. Yet it is such choices which any nation must continually make. It is impossible to gain a greater advantage without sacrificing a lesser one. When any political decision is made, somebody gets hurt. The question is always, who shall it be?

One example will suffice. Cuba, with her three million population, depends predominantly on the sugar industry for her prosperity. A high American tariff on sugar will depress the prosperity (the purchasing power) of nearly all the inhabitants of Cuba, and they will be unable to purchase such a volume of American goods as they might purchase if their sugar industry were prosperous. On the other hand, a higher American tariff on sugar will aid the local American producer, who has many millions invested, and will add purchasing power to his employees. Now, apart from any concern for the welfare of the Cubans, here are two American interests in conflict—the interest of the local sugar grower and his employees, and the general interest of the American exporter (to say nothing of the sugar consumer and the American investor in Cuban sugar fields). The choice of a sugar tariff is a choice between one or another of these American interests.

Such a choice is continually being presented to an em-

pire. Policy—that word used so facilely by writers—means the well deliberated decision to hurt one local interest in order to benefit another. Who shall be hurt and who shall be benefited, which interests outweigh the others in the general plan of welfare—it is in answering such questions that a nation formulates its imperial policy.

It is characteristic of empires—as it is not, generally speaking, of nations—that in deciding who shall be benefited they are forced to take into consideration other nations. Empire—especially commercial and financial empire—must take thought how to promote the prosperity of its component parts. To the extent to which it does this, it becomes an empire. The particular way in which an imperial nation benefits itself is by benefiting the nations which compose the empire. And this invariably involves a sacrifice of certain home interests. When a people can deliberately decide to make such a sacrifice in order to promote a greater benefit, it can be said to have achieved the imperial mind.

In the same way, peace can be promoted only by the sacrifice of the lesser to the greater. Which is the lesser and which the greater, the people must be led to decide.

It is a familiar saying that you cannot abolish war until you abolish the causes of war. The causes of war, of course, are conflicts of interest. You cannot abolish conflicts of interest, but you can arbitrate them, if both sides are willing to accept the risks of arbitration; or you can adjudicate them, if both sides recognize a common law governing the type of case in dispute. But you cannot either

arbitrate or adjudicate if both sides insist on always winning everything.

It is often said that nations can honorably arbitrate everything except what they consider their vital interests. But it is only vital interests, not minor interests, which lead to wars.

What interests are so vital that they can more safely be left to the decision of war than to the decision of a court, what interests are so relatively unimportant that they can be left to arbitration or adjudication in the interest of general peace—these are the questions which a nation must decide if it wishes to preserve peace. But a nation is truly in favor of peace only in so far as it is willing to risk to court decision the things which it thinks it might gain by war.[1]

Such choices, on specific issues, constitute a nation's policy. Policy is not formulated in a nation's head, but in its daily acts. It is the sum of the choices between the lesser and the greater in all the decisions which it is called upon to make.

What are the choices which America seems deliberately and definitely to have made? They include: *restricted immigration; defense of the Canal Zone* at all costs; and

[1] America has up to now refused to agree to promise to submit its major disputes to the World Court. In this it is still obeying the old nationalistic instinct of *Isolation*. Its progress toward "all in" adherence to the Court will doubtless be slow, and will be in proportion to its growing consciousness that the interests of empire call for guarantees of permanent peace even at the sacrifice of immediate advantage.

maintenance of the *Monroe Doctrine* in its revised form to include American authority to intervene as and when American interests are involved. These have been generally accepted by the outside world and will offer little material for dispute.

The issues on which America has not yet made its choice would seem to be the following:

Tariff policy: Shall it favor the particular producing interest or the general commercial interest? (The interest of the consumer has become a minor consideration.) Shall it favor the American nation or the American empire?

Isolation: Shall America enter into binding agreements with foreign nations or with foreign institutions such as the World Court? Shall America enter into a general agreement with the British empire covering all foreseeable major contingencies, or shall it conserve complete freedom of action? No answer whatever, as yet.

Open Door: Shall America welcome foreign investments and foreign concessions in those territories over which it exercises effective control? It probably will when it feels strong enough, and it probably is strong enough already to make this gesture without risking the safety of the Canal.

Freedom of the Seas: America simply does not know what to think about this. It would like to enforce its conception of maritime freedom when it is a neutral and limit it if it should become a belligerent. Practically it must come to an agreement with Great Britain concerning all foreseeable occasions on which it might be either

belligerent or neutral. This implies a concerted Anglo-American agreement, which would require a great deal of negotiation and willingness on both sides to sacrifice freedom of action. Whether such an agreement, which many Senators will call an entangling alliance, is worth the accuring benefits, is one of the major outstanding questions of American imperial policy.

CHAPTER IX

MAIN STREET'S DOLLAR

AMERICA has recently seen the rise of another billion dollar industry, that of foreign investments. Its growth has been more rapid and more surprising than that of the motor car and film industries. It indicates a complete reversal of the habits and outlook of the American people.

Before the War this industry virtually did not exist. The American's inherited diffidence toward "entangling alliances" with foreigners most decidedly included a diffidence toward risking his hard-earned cash in unknown lands. The small investor, who rather preferred to put his money into local concerns which he could see every day, had to be educated even to United States Steel and Pennsylvania Railroad. As for going across the ocean, it was out of the question.

Only some half dozen foreign issues were listed on the New York Stock exchange. The total turnover was but $3,500,000 a year. Even the alert investor was aware of the existence of but a handful of foreign bonds (including, ironically enough, a Russian government issue). For

practical purposes the foreign investment market did not exist.

On the eve of the World War, American investments abroad totaled some $2,000 or $2,500 million. But these were almost entirely in the North American continent and the Caribbean. And they were not investments in the sense now commonly understood. They did not represent the investment of the small saver in well recognized stocks and bonds, but very largely the capitalization of American enterprises in nearby lands. American sugar firms raised money to invest in Cuba, fruit companies to invest in Central America, paper manufacturers to invest in Canada, oil companies to invest in Mexico. All these were, for practical purpose, domestic issues. They were sold to a comparatively few investors.

Nowadays the quantity sent abroad is between $1,400 million and $2,000 million.[1] It is this money, as we have seen, which is creating the American empire. The American people has within a decade reversed the habits of a century and a half. It will entrust its savings to remote lands and unpronounceable names. It is as willing to send the sweat of its brow to the Malayan Archipelago and the Land of Fire as to the local Loan and Trust Company. It has, for the first time in its history, come to feel at home in the great world.

[1] This is a maximum guess. Government estimates, especially when deducting for refunding issues, are considerably lower.

Where the Imperial Dollar Comes From

But these foreign investments of thousands of millions of dollars are not made by "bankers." Bankers have very little money to invest, compared to the wealth of the nation. Bankers do not deal in their own money; they deal in other people's money. That is their business. When the house of J. P. Morgan "loans" $100 million to the Kingdom of Italy it does not, of course, hand over any of the money in its vaults. It simply sells the obligations of Italy to any Americans who wish to buy them. The "imperialistic" investment bank of today is not, for the most part, a money-lender, but a middleman.

The money which has created the American empire is not that of "the banks" but of the American people. The imperial dollar comes from Main Street.

Dwight L. Morrow, formerly a partner in the Morgan house, has estimated [2] that there are fifteen million Americans, one out of every eight, who invest in stocks and bonds. Since foreign offerings constitute a fifth of those annually issued it might be assumed that three million Americans have sent their money to Paraguay, Shanghai and Iceland. Such an estimate would undoubtedly be too high, but it would not be unreasonable to conclude that between half a million and a million Amer-

[2] "Who buys Foreign Bonds?" *Foreign Affairs,* January 1927.

icans now own foreign securities, as compared with a few thousand fifteen years ago.

Mr. Morrow made an effort to discover by direct questioning who buys foreign bonds. He found that by far the larger proportion of the typical big issues is bought in blocks of $5,000 or less and that the number of investors who buy in such quantities vastly outweighs the number of those who buy in large blocks. And the geographical distribution is very broad. The money which annually flows abroad does not by any means come only from the "financial centres." It comes directly from all the larger and many of the smaller cities.

If the typical direct investment is between, say, $2,500 and $5,000, there is still the investment trust which soaks up the savings of small investors in amounts from $50 and $100 and thus sends them on the Grand Tour of the world. Probably several hundred thousand Americans are investing their savings abroad without knowing it (and, it should be added, without having cause to regret it).

This billion dollar industry of collecting American dollars for foreign investment is already organized on a scale comparable to that of the automobile business. It operates under the same "high-pressure salesmanship" and aggressively "spots" and "nurses" its prospect until he (rather than the bond) is "sold." Such salesmanship, so characteristic of America, would be nothing less than shocking to an Englishman. In England, today as for decades past, there is something indelicate in the idea of a banker or his representative actively soliciting money for invest-

ment. It would be regarded much as though a surgeon started a "campaign" to "sell" a prospect on the idea of an operation for appendicitis. It smacks of the eagerness of the promoter to sell stock in non-existent gold mines. The traditional old-world mode of bond salesmanship requires that the banker shall sit in dignified reticence until the investor comes to solicit his advice.

Not so in America. Foreign bonds are in competition with all the other commodities, from vacuum cleaners to sport airplanes, which are rivals for a share of the consumer's dollar. The sales end of the bond business is now an intricate organization, with national sales offices in New York, Boston, Chicago and San Francisco, district offices in the other larger cities, and a network of branch offices in all the smaller cities and towns. From the towns its salesmen go out actively canvassing the villages and farms.

Stone & Webster & Blodgett estimate [3] that there are about three thousand houses which act largely as dealers in securities allotted to them by the originating houses. Another investment banker has estimated the number as high as five thousand. On an average these houses may employ five men, some in the office and some as ambulatory salesman like insurance agents. In addition to these twenty-five thousand, many more thousands are employed to administer the central offices, besides hundreds of representatives constantly maintained abroad. This or-

[3] "One Thousand Dollars a Second." Stone & Webster & Blodgett, 1928.

ganization does an annual business of seven or eight thousand million dollars, of which a fifth is in foreign securities—and there is an annual turnover of some billions more on the Stock Exchange.

This selling organization formerly faced a strong "sales resistance," as we have seen. Once beyond the immediate orbit of the big banking world, it found French fives and City of Montevideo regarded much as gold mine stock had been regarded two decades before. The talk of cancellation of war debts (the American people's one considerable adventure in lending abroad) did not help to dispel the suspicion. But the need for foreign loans to finance American exports was pressing, and the sales organization undertook the promotion of the new commodity with characteristic thoroughness.

The suspicion as to the safety of the foreign issues was gradually overcome by the moral indorsement of the originating houses. If Mr. Morgan or Mr. Kahn thinks it's safe, said the small investor, then it must be. The local investment trust, operating as another link in the conveyor belt, further reassured the hesitator.

Another type of sales resistance was that typified in the statement of Congressman Ralph F. Lozier of Missouri in Congress in 1925: "By our lavish loans we are putting European factories on their feet, and as an obvious result of our short-sighted foreign loan policy these factories that have been restored by American money are fighting to take our South American and other world trade away

from us. . . . We are lending money to Europe with which to fight us."

Here was a reversion to the old mercantilist argument, which assumed that any benefit accruing to another was necessarily a potential benefit withheld from oneself. But to some extent the opposite idea has penetrated the American mind: that in the modern world a prosperous merchant needs a prosperous customer, that in the long run you cannot prosper at other people's expense, that large scale business has in it a certain touch of generous recklessness. In so far as the American people was becoming educated to such truths as applied on a world-wide scale it was becoming imperial-minded.

But the most effective of the arguments which broke down sales resistance was that of interest rates. Throughout most of the first eight years following the War interest rates averaged from 50% to 100% higher in Europe than in the United States. This was partly due to the shortage of surplus goods in Europe and to their superfluity in America. It was also due, to a considerable degree, to the two billion dollars worth of gold shipped to the United States during and after the War in payment for goods that could not be paid for otherwise. Gold added to the national monetary reserve can serve as the basis for six to ten times its value in currency or credit. Although the Federal Reserve Board endeavored to "sterilize" the surplus gold receipts to prevent the inflation of credit, a great deal of new credit necessarily became available,

with a consequent easing of the interest rate. For several years after 1923 the average yield of domestic investments was around 4% while the average yield of European investments was 7% or more. Such an argument was decisive with the investor, provided some known and trusted investment house recommended the issue.

The result of this sales campaign was soon apparent. The American people increased their investments in foreign capital issues steadily year by year from $585 million in 1920 to $1,376 million in 1927 (with a slump in only one year, 1923).[4] Before the War American foreign investments averaged $20 per capita. In 1927 the average was $120. The American people are buying $200 worth of foreign securities every second. Main Street has become a continuation of Wall Street.

Mobilizing the Imperial Dollar

The dollars sucked up through twenty-five thousand roots are gathered in the larger investment centres and ultimately concentrated in New York. Here the hundred or so investment houses receive them, sort them, and dispatch them on their way to foreign lands.

These are "originating houses" in the sense that they investigate and to a certain degree guarantee the soundness of the ventures they sponsor, and that they frequently suggest, even urge loans on the prospective foreign bor-

[4] Government estimate, usually regarded as conservative.

rower. They cannot be indifferent to the soundness of the issues which they offer; for although they are dealing in other people's money, their reputation cannot afford a record of bad investments attached to their name. They must have direct knowledge of the circumstances of each investment which they promote. Who is to tell whether it will be profitable to make a hole in the solid rock on the Chilean seacoast, in the hope that it will become a profitable port? Who is to say whether the municipal slaughter house of a remote South American town is on a sound economic foundation? Somebody must find out, with as close a degree of accuracy as is humanly possible. It is the "originating houses" which make themselves responsible for such information, either through their own representatives or through the United States government. But they do more: they make it their business to nose out new opportunities for investment in foreign lands, to "sell" the borrowing of money to governments, municipalities and firms which had not thought of it.

When a house like that of J. P. Morgan underwrites a very large loan (such as the $100 million issue to the Kingdom of Italy in 1925) it usually splits it among other investment banks. These, after underwriting their share, pass the blocks on to their branches in other cities, which have the issue listed with the local houses with which they are in correspondence, and these in turn put their salesmen on the campaign. It is by no means unusual to have a single large issue subscribed by several thousand individuals. The large houses also find a good market for

their large foreign issues in the life insurance companies and investment trusts, which through their own organizations have been collecting dollars in every town and at every crossroads.

The large investment banks assume an enormous responsibility in thus disposing of one or two thousand million dollars of America's money each year. And it appears that they do their work well, for but a small fraction of 1% of money thus invested abroad has been lost by default or bankruptcy—a percentage far lower than in the domestic field. But if they assume a great responsibility, they reap a high reward. The United States Department of Commerce estimates their commissions as underwriters of foreign loans at between $60 million and $80 million a year (paid by the foreigner). But that is not all. The Department of Commerce allows about an equal amount for "securities issued below par"—a spread which is distributed among underwriters and subscribers over a period of years.

Where the Dollar Goes

Main Street's dollar is the blood of empire. Wherever it goes as long-term investment, there Americanism lodges. Where does it go?

Dr. Max Winkler, in his report for the Foreign Policy Association on the American foreign investments for the year 1927, wrote:

"We lend money to public utility, railroad and industrial enterprises in Canada. We finance machinery companies in Germany and Japan; steel companies in Germany and Luxembourg, Bulgaria and Roumania; plantation companies in the Dutch East Indies; banks and financial institutions in Austria and Germany, Holland and Hungary, Colombia and Australia; hydro-electric companies in Germany and Italy, Norway and Japan; railways in Belgium and Argentina, Chile and Colombia; department stores in Germany and Great Britain; street railways in Germany; rubber and oil concerns in Bolivia; rubber and mining companies in Brazil; textile companies in Germany; automoblie companies in France and Italy. We acquire telephone concerns in Austria and Brazil, Chile and Uruguay. We buy public utilities in Brazil; and land in Panama and Guatemala. We secure oil concessions in Colombia and Venezuela and rubber concessions in Brazil. We buy real estate in Cuba. We finance steamship companies in Great Britain and France, Germany and Italy; sugar companies in Mexico; and even lend money to banks in Iceland."

Elaborate studies have been made to list the countries in which American money has been invested. None has yet been made to list those in which it has not been invested. Probably the search would be futile. American money is today lifeblood to nearly every nation on earth. This should not be astonishing. It is the nature of capital, when it becomes mobile in very large quantities, to flow wherever it is needed; and it is needed everywhere.

The hundred investment banks in New York City which dispatch Main Street's dollar to all parts of the world have never rendered an adequate account of their activities. Of their stewardship, in the limited financial sense of the word, they regularly render an accounting, and it is satisfactory. But they have not yet undertaken to narrate the adventures of the dollar which they launch upon its adventures throughout the world.

One must have lived a while in one of those "backward countries" to appreciate what the dollar means to them. In a moment of general uncertainty, perplexity and despair, the news of a "dollar loan" comes like the sign of a thunderstorm to a parched land. What poet will translate the financial rubric of "six and a halfs, issued at——, redeemable on June 30th 19—" into human emotions? Who will tell of the lonely old people whose bonds have been yielding less and less in purchasing power, who have reduced their meat meals from three times to once a week, suddenly learning that the worst is past and their income is at last secure? Who will tell of the families rescued from the brutality of poverty when a factory resumes operations? Such experiences are the result of "capital productively invested." It has long been a fashion to assume that money invested abroad for profit is somehow a breeder of tyranny and misery. Who has investigated the instances in which it has meant release and happiness? The motives of the investor may be selfish, the mode of investment fraudulent, but the money itself, on whatever terms it comes, means liberation from the

most abominable of all tyrannies—the tyranny of poverty. Money is the power to acquire those things necessary to the good life. Money is the root of all good.

The root; but not, of course, the flower. The flower will blossom as it will. How the flower of civilization is to be nurtured is the affair of philosophers and poets and educators. But the root must rejoice in the rich soil of material abundance. And wherever that abundance is provided there civilization is promoted.

The dollar, sent forth from the Port of Wall Street, goes to the Chinese jungle, to the South Sea Islands, to Polish villages, on adventures the like of which our most gifted fiction writers cannot imagine. No Kipling has yet told the human story of these adventures. But the most casual traveler, if he has eyes, may see the decent dwellings, may taste the pure water, may sense the self-respect which are the result of dollar investments in dozens of South American towns, in dozens of European communities.

All the evidence revealing the crimes of financial imperialism should be placed on the record. But no honest person has the right to infer that the imperial dollar is in itself a source of evil. The dollar abroad gives the victims of poverty a chance to earn a living. The dollar fertilizes fields, furnishes markets to industry, suppresses plagues, nurtures hope.

It has been said that modern civilization brings discontent to peoples living in a state of picturesque, contented poverty. Poverty may be picturesque to tourists with cameras. But contented poverty is the lowest estate

to which the human race can sink. It is a condition which no dog in the streets will accept without protest. Contented poverty means weary-eyed women walking aimlessly about the streets, bloated and bow-legged babies listlessly playing in filth, shiftless men with diseased eyes waiting for nothing to happen.

If the dollar which combats such a condition means imperialism, then the world needs more imperialism. There is no virtue in poverty. It is a disease to be fought. And modern imperialism is the best weapon yet devised to fight it.

CHAPTER X

THE COLOSSUS OF THE WEST

EUROPE awoke from the nightmare of war to discover that it was living in another age. Instead of the ecstasies of glory and victory it was experiencing the realities of poverty. It was a new day in which no sun shone.

But far over to the west, in the land which Europe had discovered, colonized, financed and patronized, it descried the new seat of that power which had stolen away from it like a thief in the night. Over there was wealth, confidence, hope. Europe could not make peace without American approval, it could not set the wheels of industry moving without American money, it could not feed its starving multitudes without American charity. Every major political calculation evoked the question, what will America do? Every subsequent year confirmed America's predominance as the final reservoir of wealth and power. Perplexed and frightened, Europe began to call post-War America "the Colossus of the West."

What is in that phrase? Just what do Europeans imply when they use it? What is America to Europe? Exactly what does Americanism mean to Europeans and how does it actually affect them in their daily lives? If they fear it,

just what is there to fear? If they resent it, why?

Before the War, America was rarely a factor in everyday European politics. There was an occasional dispute, like that over the Venezuelan boundary; once in a while an American like Roosevelt told Great Britain how to manage her empire. But the day-to-day relation of America to Europe was simply that of a steady borrower and punctual debtor; a reliable provider of wheat and cotton. The European world went about its daily work without thinking of America save as a backward but promising colony.

But suddenly, soon after the armistice, Europe realized with acute astonishment what is now so familiar: that America possessed nearly half the world's capital wealth; nearly half the world's supply of monetary gold; virtually all of the world's surplus and mobilizable wealth; and a standard of living of which Europe had hardly dreamed. America had smashed Great Britain's two-power naval standard, on which the politics of Europe had turned for more than a century.

And Europe owed America ten thousand million dollars. America wanted to get its money back; and Europe had no money. America insisted. Europe was resentful. Thus began that emotional resistance to the Colossus of the West which has now coagulated into a settled policy of anti-Americanism.

But more galling than debts which Europe had contracted to repay was the charity received, for which America did not ask repayment. To be in debt is painful; but to be a beggar is humiliating. And post-War Europe

was, candidly and helplessly, a beggar for charity over a considerable part of its territory.

The French franc was saved from catastrophe by an American loan. So was the Italian lira. Again and again, the currencies of European nations were rehabilitated when and as it was decided that American capital would participate in the necessary loan, and even supervise the spending of it. The internal policies of a dozen nations of Europe were fixed in Washington.

What is American Prestige?

In short, the American dollar acquired throughout Europe that intangible, compelling quality which is called prestige. But just what is prestige, and how does it make itself evident?

The prestige of a nation in foreign lands is not, as might be supposed, made evident by the imitation of its predominating, effective qualities. It is, instead, made evident invariably by an imitation of its superficial characteristics. For many decades England enjoyed predominant prestige on the continent because of her power to decide all political issues. But how, concretely, was this prestige expressed? Not by the general adoption of the English parliamentary system, but by a widespread affectation of English clothes and English sports. The ruling class on the continent had their clothes cut *à l'anglais* because that was the way the English empire-builders had

their clothes cut. The younger generation on the continent went in for English sports because "the battle of Waterloo was decided on the cricket fields of Eton." More recently, plus fours were worn by continental sportsmen, certainly not because they were beautiful, but because they were English.

The sincerest of all flatteries is the imitation of one's vices. The prestige of America on the European continent today is expressed, not by the imitation of those qualities which Americans consider the strength of the American character, but by imitation precisely of those habits and weaknesses for which Americans are inclined to apologize.

The American cocktail, exiled from its native land, has conquered Europe. Throughout the continent, no fashionable dinner party can begin without a Martini. The guests may not really like it, but they drink it because it is the *thing*—that is to say, the American thing. The American bar is a fixture in every large city in the world except in America. The "bar" that was known in Europe before the War—a hospitable space in which one could sit leisurely at a table and sip an aperitif or a beer—has given place to the mahogany bench and brass rail, the drinks consumed quickly and frequently. The European bar now prides itself on mixing its drinks exactly as they are mixed in—of all places!—New York.

Before the War it was Vienna which set the world-fashion in dances. Today it is Broadway. The invention of a "Black Bottom" is world news; it is reported, and

somewhat fantastically described, in provincial newspapers from Portugal to Finland. Go into the sleepy Mohammedan village of Tirana in Albania, go deep into the snow-bound towns of the Georgian Caucasus, and the young ladies of the social set will come to you begging to be taught the "new steps." And Paris is as subservient to Broadway as Tiflis.

And along with the dances has gone American jazz. In all cafés of Europe, wherever there is a dance orchestra, there are played the Broadway hits. One can estimate almost to the exact number of days, the time it requires for an outstanding melody from a New York musical show to reach Budapest. These tunes are not played to please the American tourist; the tourist has come to hear something native, a czardas or a tarantella. They are played because the Europeans want to know what is the latest thing. Famous composers and eminent sociologists complain from time to time that jazz is ruining the taste of their countrymen, but the public insists on having what is American because it is American.

After the War Americans went everywhere in Europe distributing American food, American clothes, American ideals and—American poker. If you are stranded in any remote town in the Balkans, the chances are that, with a little diligence, you can organize a poker game within two hours. You will not suffer from the barrier of language, because all the language of poker is American, and it is international just as English racing terms are international.

America did not invent short skirts; but it was the American woman who decreed that they should continue in fashion, and they have remained the fashion. Paris has frequently sought to lengthen skirts; America has vetoed the proposal and has prevailed. America does not yet create world fashions in women's clothes; but it controls them. Paris creates models with one eye on Park Avenue. Parisian coutouriers maintain special departments to adapt Rue de la Paix designs to the American taste. The American woman has done what no other woman in the world has done for two centuries: she has defied Paris and created a type of fashion. It is only a matter of time until feminine fashions for the entire world will be created in New York.

The American woman, with her trim, athletic figure, is everywhere accepted by European men (and envied by European women) as the standard of feminine beauty, in place of the jolly Viennese plumpness which was the standard before the War. Europe regards the slim ankle as a mysterious American invention. And that, too, is prestige.

Short hair originated in America and is now fairly universal in Europe. This is the very triumph of American fashion-setting. It has (you must believe it or not) an integral relation to the fact that America is able to build the most powerful navy on the seas.

Twenty years ago the news that a rich American girl was to marry a titled foreigner was regarded as sensational. Today it usually achieves no more than a perfunc-

tory notice in the social column of an American newspaper. For such marriages, uniting the best of America (according to American standards) with the best of Europe (according to European standards) has become one of the normal processes of the post-War readjustment. The American wives rarely "assimilate" to the countries into which they have married; they retain their American speech and customs and friends. They remain centres of Americanism in the heart of an ancient aristocracy, and their children feel themselves partly American amid an old culture. They are a very substantial factor in the "Americanization" of Europe. The search for an American heiress is one of the accepted activities of the titled or otherwise aristocratic youth in every capital in Europe. In the fashionable hotels you may watch it any afternoon at tea time. The technique of the European youth is expert; the American girl is dazzled by it and rightly feels that she has met an admirer compared to whom her American sweetheart was but a vigorous barbarian. The percentage of success of these young men is surprisingly high, and many an American suitor might profit by spending half an hour in the Hotel Excelsior in Rome. Their flirtations are by no means without political significance. They represent an important biological part of the process of Americanizing Europe.

In innumerable unexpected ways Americanism becomes part of the daily lives of the Europeans. In many villages of the Balkans and the Near East one notices that the poor folk have taken to the use of tin for a multitude

of homely purposes. Tin for roofing, tin for water jars, tin for flower-pots, tin for toolhouses, tin for fences. Whence comes this inexhaustible supply of tin? From American oil cans. Once the villagers purchasing oil had to bring their own containers. But American firms give away the cans with their oil. (No doubt British firms do as much, but America somehow gets the credit.) There is an appearance of lordly generosity in this. And as a result tens of thousands of humble homes are partly American in structure.

In the past decade some hundreds of thousands of European emigrants to America have returned to their native towns, bringing with them American money, American speech, and a repertory of miracle-stories about America which lose nothing in the telling. In many Italian and Balkan villages there are two distinct sections visible: one the "native" quarter, built of rough stones, hewn planks and mud plaster; the other the "American" quarter, built by the returned emigrants out of their American savings,—houses of shiny white-washed plaster, furnished with electric lights, with phonograph and even with sanitary plumbing. The tourist may find the stone huts more picturesque, but to the villagers the shiny white houses stand a daily reminder of the wealth and greatness of America.

And these returned emigrants bring the American language with them. Not the English language, mind you, but the twang, the profanity, the slang which are prized because they convey the prestige of Americanism. If an

American motorist or salesman passes through the village, it is these returned emigrants who have the honor of chatting familiarly with the great personage, and perhaps of offering him wine in one of the little white houses. A vast stretch of European territory is today sprinkled with these "little Americas," where American speech is spoken and and American civilization (such as it is understood) is admired.

An official of the United States government was recently motoring through rural Greece. In one village he came upon a charming scene. The entire population came out to greet him, clad in the local costume. At their head marched the village patriarch, a tall, dignified man of eighty, adorned with a flowing white moustache and clothed in the traditional white broadcloth trimmed with black and red braid. The American, being in a gay mood that morning, chose to address the patriarch thus:

"Hello, Bill, how's crops?"

To which the venerable man replied, with a familiar nasal intonation:

"Crops is all right, but what the hell business is it of yours?"

He had lived twenty years on a Michigan farm.

In the seventeenth and eighteenth centuries French became the recognized international language. In an aristocratic age all persons pretending to culture spoke the language of Versailles. In the democratic twentieth century, American is fast becoming the international language. But with a difference: for whereas French

permeated society from above, American is permeating society from below. It is really a strange and portentous thing, one which has not occurred over so large a territory since the days of the Roman Empire.

Between 85% and 90% of the films exhibited throughout the world are of American manufacture. Why is this? It is simply because, by and large, American films are a superior commercial product. But this is not due to any inherent superiority in American producers or actors. It is due largely to the size of the American production base, just as in the case of motor cars and typewriters. The huge extent of the American internal market—huge not only geographically but especially in wide distribution of spending power—permits the American producer to spend more money than his European competitor, to achieve greater technical perfection, to stage more impressive scenes, to go to the ends of the earth for strange and astonishing matter, to hire away the best of Europe's directors and actors. The European film producer is crushed beneath the weight of the dollar, and never has a chance to get on his feet.

Do American films spread American ideals and ideas? Unquestionably they do. But it would surprise most Hollywood producers to learn that they are regarded in Europe as agents of the American government for the spread of American propaganda. That is chiefly because the European governments deliberately propose to use their own films for propaganda purposes. They have spent large sums to provide for their own motion picture

industries a home market sufficiently stable to make them self-supporting. Their success, up to now, has been but indifferent. The American dollar asserts its superior power even in the field of cheap entertainment. The European politician is essentially right. The American film, glorifying the courage and strength of the American man, the charm and goodness of the American woman, does insinuate into the minds of millions the conviction that America is the greatest of all nations. The result, over a period of years, may well be profound.

No less important as an evidence of American prestige is the spread of competitive sports. Football, baseball, cross-country running and hiking, have since the War become popular with millions of boys and girls who would never have thought of them before the War. These sports differ sharply from the organized athletic drills of the German *Turnvereine,* the Swedish athletic clubs and the like, in placing a premium upon the competitive element. And they differ equally from the English sports which were popular before the War, in that they are democratic. English sport may be highly competitive, but it is essentially an aristocratic diversion; it made headway on the continent only among the leisure classes. The very soul of American sport is the idea that it is for everyone, and this idea has been accurately caught and understood by the European masses. It, too, is an element in American prestige abroad.

But what, one may ask, about the true prestige of America, that of art and literature? The answer is that it

scarcely exists. Europe refuses to think of America as a creator of beauty; that is not the sort of thing which America is good for. The American best seller in Europe in recent years has been Henry Ford's autobiography. Jack London and Upton Sinclair are still popular American authors among the masses, while students do generous justice to Poe, Whitman, Emerson, Mark Twain and some modern American poets. But that is all. In the concert hall, an American composition is usually the *divertissement,* more or less frankly put there to be laughed at. In an international art exposition, the American room is pretty sure to be the joke room. American philosophy is known only by Pragmatism, which is interpreted solely as a ruthless (and therefore typically American) justification of getting results in disregard of morals and ordinary decency.

Yet America occupies, in the European view, a distinguished position in the world of art. It is that of purchaser of beauty and talent. America is famous in Europe not for the art it creates but for the art it buys.

One of the most amazing evidences of the power of America is its ability to buy and hire beauty. Pictures, statues, tapestries, even whole buildings are purchased from their impoverished owners and transported to America. Castles and palaces are bought for residences. An actor, an artist, a philosopher, a stage or motion picture director, so soon as he reveals any talent for pleasing the multitude, will be hired away by the offer of salaries which kings might envy. It has almost come to the point

where to every European artist, actor, singer, stage designer, interior decorator, author or professor success means one thing—an American contract. European authors are writing with an eye on the American market. A sensationally successful novel in Europe may net its author the equivalent of $5,000. Yet the same book in America may bring him $50,000 or $100,000. An American motion picture company paid Papini $3,000 for the privilege of advertising that its film on the life of Christ (drawn, of course, entirely from the Gospels) was "by Giovanni Papini." Such a disparity in rewards, Europeans feel, may well breed in an artist a subtle contempt for his own land and people.

One must, in imagination, place oneself in the position of these Europeans and picture their feelings as their best talent, their cultural glory, is drained away to a distant land by the sheer power of money. They pass laws forbidding the export of works of art (yet fear that some day they may be obliged to sell these works to pay their war debts). They are helpless, humiliated. But the great, invisible golden magnet draws the pure metal of genius over the ocean, silently, invisibly, continuously.

Why America is Heaven

If you attempt to specify the concrete manifestations of Americanism in Europe, to analyze the ways in which America is modifying the daily life of the continent, you

get little beyond such superficial matters as cocktails, jazz steps and football games. But, of course, it is not these things which Europeans fear, however much they may disapprove them. The great power of America over Europe is still intangible. You cannot put your finger on what Europeans call "the American menace." But it is clear that this influence, whether menace or blessing, is very real.

Yet the European writers and politicians who most fear the menace from the west are perhaps not entirely conscious of the reality of the thing that disturbs them. They talk much of "American ideals." No need to say that they are not thinking of those ideals which Americans would claim as native to their country. It is not honor or courage or justice or generosity or love of liberty or any of the other Fourth of July virtues which they have in mind. No, it is quite other "ideals" which they assert are corrupting the European populations.

First, there is "materialism." It is very widely assumed that Americans understand no values which cannot be seen and touched or expressed in dollars. This "ideal," it is argued, will make the European populations discontented, weaken reverence for the church, respect for the state, and esteem for the responsible classes of society.

Second, there is the ideal of "bigness." For some years it has been a favorite thesis among the European *intelligentsia* that America has produced a "quantitative civilization" as contrasted with the "qualitative civilization" of old Europe. Americans, it is asserted, have sacrificed all

appreciation of the fine and the beautiful, in the effort to create the big. The cultured classes of Europe, so runs the argument, are the appointed guardians of the secret of excellence.

Third, there is the ideal of "efficiency," expressed in the "standardization of personality." An entire population reduced to a laboratory uniformity of thought and feeling, all responding with mathematical precision to a given condition or a given command. In such a civilization, the subtle qualities of personality, which are the delight of social life, must be lost.

These are the active ideals of Americanism! The American empire, if there is to be one, will spread materialism, megalomania, and universal mediocrity throughout the world!

Obviously, if all this is the truth and the whole truth, Americanism is an international peril. But most of the critics who assert it are not disingenuous. It is not, for the most part, American ideals, but American power which they resent.

The American demand for the repayment of war debts has perhaps assumed an undue place in their conscious minds. As an open political issue the demand for repayment was convenient to politicians who wished to arouse their populations to a more active resistance to American penetration. Officially inspired efforts of some Parisian newspapers succeeded in producing riots against American tourists at a critical stage in the backstairs negotiations between France and America. One official Brit-

ish note succeeded in fixing the Uncle Shylock tag on Uncle Sam's coattails and inspiring a vast deal of rudeness toward American visitors. But the payment of the war debts was only part of what Europeans have feared. The deeper and continuous fear they have rarely had the courage to express.

The truth is that it is not a fact that America is universally feared and disliked in Europe. Although fear and dislike may be cherished very generally among those who make speeches and write newspapers, vast portions of Europe's population look on America not as a menace but as a hope. The occasional rudeness of an American tourist to a waiter, the contemptuous manner which expresses itself in wiping off the seat of an automobile with a 100-franc note, even the offensiveness of some of the American government's pious sermons to European nations, these do not affect the emotions of the masses.

For many decades, America has been to millions of the more humble Europeans a kind of providence. There still exists, in the European mind, that legendary America to which one might go freely if one's religion were insulted, if one's political ideas had fallen under the official ban, if one's province were unbearably taxed, if one's brothers and sisters became too numerous for the old farm, if one's handicraft were destroyed by a new factory, if one were barred from a university education. It is not true that emigration was only possible to those with money; the relatives or the village money-lender would always advance the funds, so safe was the investment

of sending a strong young man or woman to America. From America streamed back regular remittances of money to support the parents, to bring other members of the family across the ocean, to put a brother through university or to furnish a dot for a sister.

Miraculous things happened. Gretchen went to America and after working three years as nursemaid bought her mother a house. Tony, an illiterate Sicilian farmhand, worked for five years digging subways in New York. He earned from five to eight dollars a day, lived on a dollar or a dollar and a half, and returned to his native village with ten thousand dollars—the village millionaire.

In this America a mason receives six or eight times as much as a mason in Milan; a farmhand receives twice as much as a bank cashier in Belgrade; many a workman rides to a strike meeting in his own motor car where a European bank president, or even a cabinet minister (if he be honest), must walk. One out of every three persons in this happy land is a bank depositor.

There is no use arguing about it; such a place is heaven. If a laborer is told that there are certain inconveniences in such a life, that the ideals of this country are base, that it will rob him of the subtle refinements of personality, he is not impressed. He will take his chance on all that if he can prosper and take care of the old folks in their declining years. For America seems to be the one place where the Curse of Adam has been revoked. It is a spectacle to inspire awe and reverence in the breasts

of peoples who have struggled day by day for bare existence, as have so many millions of Europeans, especially since the War. If heaven is the place where a mysterious beneficence suspends the iron laws which grudge the fruits of enjoyment to the toiling sons of men, then America is, by strict definition, heaven. It is a matter of theological dispute whether heaven exists beyond the stars. But it is a simple matter of statistics that it exists beyond the Atlantic.

Now, of course, the golden gates have been rudely shut. In 1913 nearly a million immigrants passed Ellis Island; in 1926, 300,000. In 1913 some 400,000 Italian immigrants came to America; now there come but one per cent of that number. There was a time, shortly after the War, when it seemed as though everybody in Europe would have come to America had it been possible.

But although America has forbidden the celestial blessings to all save a few, this fact does not create widespread resentment among the masses. For one thing, it is not (under the present procedure) America which refuses them a visa, but their own government which refuses them a passport. And besides, each continues to hope that he will be the lucky one.

All Americans who have lived for any length of time in certain parts of Europe have surely had one experience which they cannot forget. Repeatedly, they have been approached by foreign acquaintances with one request—"Can you help me to get to America?" Artists, business-

men, laborers, aristocrats, domestic servants, come with the same demand in varied forms. Perhaps no American living in Europe has ever employed a servant under thirty years of age for a period of months without having at some time received the petition: "When you go back, won't you take me with you?" The same petition is proffered by the corner grocery man on behalf of his nephew. When the American explains that emigration to America is a matter of law, that one must have a duly authorized passport and visa, the petitioner is incredulous. Is the American not *Herrschaft?* Can not an American *signore* do anything he likes? The American suddenly realizes that he is regarded in Europe as a kind of modern feudal lord.

For, to come to the secret of it, he holds a mysterious patent which permits him to go where he likes, a privilege now denied to all but a few Europeans. He holds an American passport, a document which grants him admission to any spot on earth (save perhaps Mecca). He can go all over the world, and besides he can go —where few Europeans may hope to go—to heaven. Naturally, the American unconsciously assumes that he is a superior being; but he is startled when his assumption is brought to his consciousness.

There is a true story of an American and a British consular officer in one of the smaller South American republics. The Britisher had made some severe stricture on the customs of the country.

"Oh," expostulated the American. "That seems rather

harsh. It is their country and they have a right to do what they please with it."

"What do you mean?" asked the Britisher.

"Well, after all, it is their country. You and I are only foreigners."

"No," replied the Britisher, casually. "You are wrong. You are a foreigner. They are foreigners. But I am an Englishman."

The American is acquiring, for the most part unconsciously, the same sense of superior status and rights which was once resentfully attributed to the English. *Civus Romanus sum,* said the Roman citizen of Claudius' time, meaning "I am a citizen of the entire world, and am not subject to your local laws." How often, after the War, did Americans on a pleasure trip crash border controls, customs stations, military barriers and royal parties by means of the words: "I'm an American!" Today an American passport has something of the quality of the magic phrase which carried Saint Paul to the throne of Caesar. It is the outward symbol of a privileged race.

The True American Invasion of Europe

But where is the epochal American invasion of Europe? Just what does the invisible American empire in Europe amount to? It is not merely a matter of tourists and loans and commissions and exports and dance steps. All these phenomena, on however large a scale they ap-

pear, are familiar and do not in themselves constitute either dominion or menace. In themselves they could hardly become the basis for any future political power. It is hardly possible even to believe that America would ever protect its citizens' loans in Europe by military intervention, as in the Caribbean.

The threat of Americanism, if it be a threat, is something new. It is the threat to old-world economy by the machine age, represented by American mass-production and high wages.

America can afford to pay these wages; Europe, on the whole, cannot. An American firm can procure the capital to modernize its plant, to advertise and market its cheapened product on a nation-wide scale, and wait two, three or five years for its profits. A European firm, generally speaking, can procure capital only for an enterprise which promises quick returns. Whereas the American firm deliberately increases production costs, the European firm must keep them to a minimum until the enterprise is on a paying basis. If any nation of Europe could, by decree, double the wages of every worker in the land, that nation could begin to take full advantage of machine production. No nation in Europe can compass this. But America has been able to do something very like it: it has been able to capitalize its industrial enterprise by drawing on its unexhausted reserves and on its *expectation* of future profits. Where Europe was obliged to be cautious, America was free to be reckless. The machine gives its richest rewards to him who trusts

it blindly. America has been free to do so; Europe has not.

America comes to Europe with cheap typewriters, sewing machines, automobiles, agricultural machinery. Englishmen, Frenchmen, Italians buy them because they are cheap and because they will last for years. English, French and Italian producers of these machines ask why they cannot compete with the American product.

It is not because American technology is superior. Germany is capable of at least as high a degree of technical efficiency as is America. Germany for the past five years has been busy cultivating *Rationalizierung* (the nearest European equivalent for the untranslatable American word "efficiency"). But Germany has not the resources to raise internal wages, and is not permitted to increase her exports to a degree adequate to absorb the increased produce which technological improvement makes possible.

Shortly after the armistice it was commonly asserted in Europe that the workman (who certainly had improved his relative status) was eating up more than the value of what he produced. "Lower wages will bring increased production," was a popular slogan among conservatives. Great Britain sent commissions to visit America and fathom the secret of American prosperity. They investigated and returned with the news that American prosperity was due to high wages—in other words, that the higher your labor cost the cheaper your production cost.

This self-evident absurdity, the commission reported, was true in the miracle-land of the west.

It was only at this moment that the true meaning of the "American menace" became clear to the rulers of Europe. America was able to produce a miracle which they could not reproduce. In military science, in diplomatic capacity, the Americans were but as children compared to them. But as against this new power to achieve economic miracles they felt themselves helpless.

"Give us higher wages and shorter hours," demanded the Socialist laboring class. "It cannot be done; it is against the laws of economics," replied the employing class. "But it is done in America," responded the Socialist.

And to this the employing class, bitterly unwilling to admit its inferiority, usually replied to the effect that "America is prosperous because it is living on the war debts which you repay by your labor."

It may be surprising to Americans to learn that Americanism is, along with Bolshevism, one of the two great factors stimulating class war in Europe. Yet that is the truth. As Edgar A. Mowrer has pointed out in his book, "This American World," Americanism is feared by the ruling class of Europe because it threatens their authority over the mass of the people. It is a living challenge to their superiority, a continual evidence of their inability to dominate the affairs of the nation as they did before the War. They are beaten and dare not admit it.

The truth is that Americanism is a superior civiliza-

tion, by the only test that matters to large masses of humanity over periods of time—the test of the struggle for survival. All the European pleas for the preservation of individuality, of traditional ideals, of a qualitative civilization, are without exception based on the premise of low wages.

Europe, literally, does not know which to fear more—Americanism or Bolshevism. And for the same reason: by one of those curious paradoxes of history, the two deadly rivals in the modern world, super-capitalism and super-Socialism, are aiming at the same thing—the welfare of the working class regardless of its value in the labor market.

Bolshevism, propagating its doctrine from below, stimulates a strike for higher wages in the Ruhr. Immediately there is an outburst of indignation. Americanism, propagating its doctrine from above, establishes a branch of the Ford factory in France and proposes to pay its workers the American level of real wages. Immediately there is a similar outburst. Both are threats to the stability of the antiquated European economy of the nineteenth century; in both cases the masters of that economy feel themselves impotent to crush the invasion.

In so far as Americanism makes headway in Europe it weakens the power of those who now dominate Europe. It is from these aristocrats of the old economic regime that we hear most of the indignant protests against the colossus of the west, against the New Barbarism, against the disaster of a quantitative civilization.

The civilization of Europe is dissolving and reforming. It is reforming under the impact of Americanism. The New Europe will be moulded by the economic forces which are now in American control.

CHAPTER XI

AMERICA'S SOCIAL RELATIONS

EVERY summer the United States Department of Commerce publishes a document called The Balance of International Payments of the United States. It is a document unique in its field—unquestionably the most important economic publication regularly issued in the world today.

It is unique because it combines the accuracy of the skilled statistician with the daring of the poet. It is important because it explains, year by year, the relations which America, the world's banker and provider, bears to its neighbors abroad.

A balance of payments statement is in itself nothing abstruse. It is merely a statement of the value of goods bought and sold by a nation, together with an explanation of how the difference was adjusted. A nation imports, say, $1,500 million worth of cotton and wheat and automobiles, and exports $1,000 million worth of nitrates and rubber and Parisian perfumery. It therefore owes the outside world $500 million. How does it pay?

That is the question which any balance of payments report tries to answer. It is one of the most difficult questions in the world to answer because the concrete facts

which answer it are among the most elusive which statisticians have to deal with. Any skilled clerk can add up the value of the hides and skins exported by the U.S.A. in the fiscal year so-and-so, classifying them into finished, semi-finished and raw, dividing them according to percentage of distribution by continents, subdividing them according to percentage of distribution by nations, and drawing up a chart showing the decrease in the ratio of raw as compared with semi-finished products by nations and continents, with seasonal fluctuations, between 1880 and 1930.

But the purely statistical side of the balance, while very intricate and valuable, tells little about America's real relations with the outside world. What really matters is how America earns its living and how it pays its debts.

One feels a natural curiosity to know how Mr. A. manages to live in that reckless fashion. He gives wonderful parties; he takes long trips to Europe; he buys valuable paintings; his house is one of the finest in the city. Is he really paying for all this out of his income? Or is he using funds which really belong to others? Is he, perhaps, in fact bankrupt? What really are his assets? What his income?

One does not usually learn the inside information concerning one's neighbor's affairs, but in this pamphlet of the Department of Commerce one may learn some of the most intimate affairs of the gentleman known as Uncle Sam. Here are answered, regarding him, all such questions as you would like to ask about your wealthy neigh-

bor. Here you can see all his bills and cancelled checks and I O U's and checkbook stubs. Here you can find out if he is bluffing and how he gets away with it.

Uncle Sam's Household Bills

A man's personal transactions are nobody's business. But it is precisely this "nobody's business" in America's accounts which the "Balance of International Payments" report seeks to make clear. It includes every sort of non-governmental and non-commercial transaction in which a nation can engage. It includes everything from foreign loans publicly floated on Wall Street, investments in European potash mines, purchases of castles in Spain by American millionaires, expenditures by American tourists in foreign lands, cash balances established by European firms to finance their imports of shoe machinery, and freight charges on American goods on Canadian railways between Buffalo and Detroit; down to that $500 life insurance policy which Carlo Bazzi bought for his brother in Naples and the $45 money order cabled to Cousin Nell when she was stranded in Amsterdam last week. All such transfers of capital or credit or purchasing power are factors in a nation's ability to pay its debts.

To determine how much has been paid and received outside the official merchandise record, a statistician must register hundreds of thousands of details. And nearly all

these data will be incomplete, or will be based on somebody's estimate. There is no sure way of establishing how much money American immigrants sent back to the old folks at home in the year 1928, and there is no way of knowing how many bottles of champagne were drunk by American tourists in Paris. Yet each wedding dress paid for by a Detroit shoemaker for his sister in Perugia, and each bottle of champagne opened by a realtor of Topeka in honor of a dancer at Zelli's, has its part in settling the accounts of the United States with the outside world.

It is important to know this, yet after you have collected all the information available, you still must guess. And this is what the United States Department of Commerce has done with magnificent bravado. Guessing has been done before. The British Ministry of Trade publishes a balance of payments which ordinarily contains just four items. Some elements are statistically ascertainable. But they do not balance. The discrepancy is then arbitrarily divided between "national shipping income" and "receipts from short interest and commissions." That is all. Because the totals do not agree they are made to agree by means of the two "invisible items."

The United States Department of Commerce is not content with this simple subtraction method. It has set out to make the invisible items visible. It well knows that it can never ascertain in detail all the invisible items. But it is determined to ascertain all it can. And after it has done its very best, it will still have to do some guessing. And (here is where the Department of Commerce is

unique) when it must guess it guesses bravely. In one case it admits a possible error of two thousand million dollars. Hundreds of millions are tossed like medicine balls from hand to hand. No matter. No other nation in the world has arrived at guesses which are anywhere near so accurate.

American Trade

How then, as one businessman to another, did America deal with the outside world in 1928? It sold (allowing for certain services) \$5,334 million worth of goods and bought \$4,497 million, leaving a credit of some \$837 million. It had a right to claim \$837 million worth of goods and services from the outside world in payment for the goods it had sold. It claimed this money to the extent of \$525 million net in the joy-rides of American tourists abroad, and it remitted a net sum of \$189 million more in the gifts of American immigrants to the old country, making a total of \$714 million. There is a net credit due to the United States of \$123 million.

Further, Europe owes the United States \$733 million as interest on loans, governmental and private. But America has loaned to the world a net amount of \$962 million. There is still a matter of \$229 million coming to America on the credit and debit account besides the balance of \$137 million on the trade and tourist-and-remittance account, making a total of \$366 million. This

is a rather small item in an international turnover totaling twenty-two billion dollars. It is accounted for, in the balance of trade report, by various banking operations and an item which is certainly not negligible—that of $52,000,000 of American charitable contributions abroad.

Now this simple statement of America's relations with its neighbors is really an amazing thing. There has been nothing like it in history. It contemptuously breaks the rules which economists have long held as to how a nation should behave.

To understand how anomalous America's present trade balance is, take a typical American trade balance of half a century ago. In 1873 the United States exported $120 million more merchandise than she imported. But having borrowed heavily, she owed about $90 million in interest. She then had the comparatively insignificant sum of $30 million to play with, and she played with it, to just about this amount, by taking trips abroad over the route made popular by Mark Twain.

This is what economists have always called a "normal" relationship. A debtor nation, which has borrowed large sums of capital from abroad, must pay interest on the debt. The only way in which it can do so is to ship its goods in excess of the goods it imports. If it manages to ship more goods than are necessary to pay the interest, then it can invest or spend the additional money abroad as it likes. But, it must be understood, such foreign credits must be spent ultimately in foreign countries.

The general principle is this: A debtor nation must pay its interest by an excess of exports; a creditor nation must receive its interest by an excess of imports. The typical example of the creditor-importing nation is Great Britain. In 1913 Great Britain took 158 million pounds worth of the world's goods which she did not, on current merchandise account, pay for. This represented part of the 210 million pounds of interest due her on her vast foreign investments. Further she had due her 94 million pounds for the services of her merchant marine, and 25 million pounds for her services as world banker and middleman. In all she had 181 million pounds due her for English goods and services. Since she did not choose to take out the amount in the form of imported goods, it remained abroad, and was reinvested to increase her enormous foreign holdings and the interest annually due thereon.

The United States and Great Britain were typical debtor and creditor nations of the pre-War period. The one had an excess of exports to pay interest; the other an excess of imports to receive interest.

But the present trade balance of the United States does not fit into this scheme. Here is a nation which receives annually more than a billion dollars in interest on its loans and investments, yet continues to maintain an excess of exports over imports. Such a nation is peculiar in economic history. Its people must have a character and a set of national habits which economists did not take account of. If you can find out why this peculiar relation-

ship exists, and what it is, you will have discovered the true nature of America's world position.

Importing Culture

When America, in 1916, turned the corner from debtor to creditor, it was because of the vast productive capacity of the American plant. That plant had been accustomed to over-producing and shipping its surplus abroad. The War had taught it to produce still more abundantly. Suddenly it was faced, according to the accepted theories of the economists, with the necessity of receiving interest payments from abroad in the form of an excess of imports over exports. This would have implied two things: the lowering of the American tariff to permit the easy import of foreign goods; and the slackening of the productive rhythm to a point perhaps 20% below that to which it had become accustomed. American industry flatly refused to do either. Economic law seemed to say that it must; America said it would find another way out.

In itself an "unfavorable trade balance" is no disadvantage to a nation; on the contrary, it means getting goods without paying for them. But the slackening of the productive rhythm is a distinct disadvantage. The machine is geared to produce profits by quantity production; reduce the production by 10% and you may reduce the profits by 50% or 100%. It may be that last 10%

of sales which produces the net profit. And 10% is the proportion of exportable American commodities which is annually shipped abroad.

Moreover, the slackening of productive rhythm means loosening America's hold on the secret of the machine age. Unless the machine is employed at or near its potential capacity, it is a dead weight on business; its huge initial cost eats up in interest more than its profits, and increases the unit cost of the product above the competitive level.

Further, although in *the aggregate* America exports but 10% of the merchandise which it produces, some industries export 25% or even 50%. The loss of foreign trade would ruin such industries. And their bankruptcy would entail bankruptcy or at least serious financial difficulty to other industries which feed them and to individuals who hold their stocks. Our machine civilization is so completely interlocked that the breaking of one wheel may mean the crippling of the entire plant.

For these reasons America refused to surrender its "favorable" trade balance. It insisted both on exporting more than it imported, and on receiving interest payment on its loans—on eating its cake and having it too.

How did America persuade a world still impoverished by the War to buy 837 million dollars worth of goods more than it could pay for? Simply by selling this excess on credit. Americans in 1929 invested abroad a net amount of $962 million, after allowing for all investments and banking operations to the credit of foreigners.

Without these loans there would have been no excess of exports.

But in what form did America, then, receive interest payments on the enormous war loans and private investments which it had made to foreign countries? The net amount of interest due (after deducting interest on the very considerable investments which foreigners have made in America) was $733 million. The net expenditures of American tourists abroad (after deducting the expenditures of foreigners in America) were $525 million. The immigrants remitted $189 million to the folks back home. And Americans donated $52 million in missionary and charitable activities abroad. In all, $766 million. The difference was taken care of by banking operations and shipments of gold and silver.

This was America's answer to the dilemma propounded by the economists: How will you maintain an export surplus and receive interest on your foreign loans, without reducing your tariff and your productive rhythm? The answer was: We will do it by exporting our surplus goods on credit and taking out our interest payments in joy-rides to Europe.

Of course this setting off of one set of items against another is arbitrary. The balance of payments does not care which item cancels which. But certain facts remain clear: America could not maintain its export surplus without granting foreign loans. It could not receive interest payments without going to Europe to enjoy them.

An extraordinary situation, this! Americans have an

enormous claim on the world's wealth. They may command all the laces of Belgium and the rubber of the Indies and the spices of Asia. Americans may live in luxury on the tribute which the world owes them. But they prefer to continue working at an intense pitch, to give more than they get, and take the payment due them in the form of gifts and trips abroad.

In other words, so long as Americans insist on maintaining their high tariff and their surplus production, the only thing they can import from Europe in payment of interest on their loans is culture!

It is an impressive spectacle. Nearly half a million Americans departed by sea for foreign lands in 1928, searching for amusement, education, relaxation, variety; bent on studying old masters, learning foreign languages, learning how to sing, sampling wines, training themselves in medicine or psycho-analysis. What a picture, these hundreds of thousands of Americans, trickling through narrow Belgian streets, climbing Austrian mountains, calling on European premiers; everywhere creating their own restaurants, their own fashion shops, their own hotels,—that specialized branch of Europe's retail business known as "the American trade."

Seven hundred million dollars worth of these diversions in a year! The American tourist is fair game for a satirist like Ruth Draper (as is every tourist). But the American tourist tirelessly returns to his task of getting culture the next year, or the second year following. At first he may find foreigners merely queer. But presently

he makes the discovery that they are also human beings, and some of their ways are pretty sensible. A cathedral becomes transformed from a "sight" into a thing of beauty. An old master changes from a thing to be "seen" to a thing to be enjoyed. It is not merely "culture" which these tourists are acquiring; it is an understanding of the world for whose happiness they have so large a responsibility. In short, America is spending the tribute money which other nations pay in giving itself an imperial education, in fitting itself to rule.

Such education is essential in an imperial nation which is at home a democracy. True, the mass of voters cannot guide imperial politics, but they can grievously obstruct. An electorate which has never had even superficial contact with foreign peoples is a dead inertia against every humane imperial measure. The American people, by traveling abroad in such numbers, are slowly and sub-consciously training their minds to be a little more flexible, a little more receptive to those new ideas which empire will constantly present to them.

Is America Fabulously Rich?

The "Balance of International Payments" report also puts an end to a myth which has recently captured the world's imagination, that of America's "fabulous wealth." The predominance of American business and American capital has seemed so egregious, and has impressed itself

upon the world so suddenly, that it defies explanation. There is sorcery in it somewhere—some magician's lamp was rubbed, or some private genie was somehow acquired.

The myth is perhaps flattering to Americans. But this report does not bear it out. On the contrary it reduces the elements of American predominance to rather modest proportions. It has been pointed out that America has loaned some $25,000 million abroad since 1914—more in fifteen years than Great Britain had outstanding after a century. But $10,0000 million of this amount was governmental war loans, which have been scaled down to a capital value of some $6,000 million. And while Americans have been investing vast sums abroad, foreigners have been investing in America. At present they hold some $4,000 million in American long-term securities. Further, they hold the surprising sum of $3,000 million in bank balances and short-term capital in America. Besides, many of the foreign securities bought by Americans were later resold to foreigners.

It is impressive to read Dr. Max Winkler's statement that "we are lending abroad at the rate of $2,000 million a year and our foreign investments are increasing at the annual rate of about $1,000 million to $1,500 million." But when the government statisticians have deducted for refunding and commissions, for amortization and short-term banking operations, and for investments by foreigners in the United States, the net increase in American foreign investments comes to $962 million. "The American Nation having now seen five or six suc-

cessive years in which the par value of foreign capital issues was over a billion," says the report for 1928, "it is rather surprising that during the seven years ended with 1928 our net export of capital was only $3,253 million."

This is at the rate of half a billion a year. Great Britain's annual pre-War investments abroad, practically all net, were at the rate of nearly a billion dollars, and this in money having a 50% higher purchasing power than money today.

Again, although the outside world in 1928 owed America $882 million as interest on private investments (exclusive of war debts), America owed foreign nations $359 million, or almost half as much, on investments placed here. Clearly, although America's position in the world is impressive, there is nothing fabulous about it.

The war debts have occupied a prominent place in discussions of America's foreign relations. It has been asserted on the one hand that the interest payments on these debts were vital to the American national economy, and on the other that the burden of transfer was too great for the world to bear. The report shows that these payments, about $210 million, are almost exactly 1% of America's annual international turnover. Whatever difficulty there may be in paying them, there is clearly no great difficulty in receiving them; and conversely, if America chose to remit them the national cash account would experience very little distress.

Another element in the myth of "fabulous America" has been the vast quantity of the merchandise which it

has forced on foreign markets since the War. The myth has it that America is intensifying its exports to the point of threatening all industrial enterprise elsewhere. Yet this export represents but 10% of America's exportable production and much less of its total production. And while it has increased in recent years, in quantity and value, its ratio to total production has actually been decreasing.

Is there, then, no basis for the myth of "fabulous America?" Yes, there is. What is extraordinary about America is its extraordinary steadiness. The abnormal thing about America is its "normalcy." American net investments abroad have not, as a too hasty reader might infer from Dr. Winkler's estimates, been increasing at the rate of two billion dollars a year, but at most by a quarter of that amount. The "tribute" which the American empire can claim from foreigners is not fantastic. But it increases steadily. It has increased, in the years 1922–28 as follows: $555 million, $594 million, $635 million, $689 million, $740 million, $800 million, and $882 million. American exports have increased in these years, but so also have American imports, and in very much the same ratio. As the export surplus has increased, so have American net loans abroad. As interest payments have increased, so have American tours to foreign lands.

The explanation of the sudden and sensational predominance of America in the post-War world is not that America has been abnormal, but that Europe has been sub-normal. Absolutely considered, America's development has been remarkably steady. It is the contrast

between this well ballasted progress and Europe's rudderless wanderings in the stormy sea of war and reconstruction, which makes America's position in the race seem to Europeans phenomenal.

What has America been Doing?

The balance of payments reports tell more about the recent history of America than has ever been included in an equal number of pages. Before the War, the United States was largely a client of Europe. From Europe she drew her needed supplies of capital, and to Europe she sent her cotton and wheat in payment of the interest. But during the War, when Europe was obliged to relax its grip on the markets of South America and Asia, the United States entered the field in earnest. After the armistice, the larger part of American foreign loans went not to war-stricken Europe, as might be supposed, but to Asia and Latin America, where vast potential markets were awaiting the American merchant. Later, after the Dawes Plan had given Europe a chance to breathe, American capital flowed more toward the old world. But still American investments in Europe are less than half the annual total placed abroad, and American foreign trade with Europe is only about a third. American trade looks southward and westward, not back to the east. The geographical centre of world trade is now situated somewhere in the vicinity of Chicago.

Before the War, the item of freight was almost exclusively a debit in the American balance of payments. Now, because of the ship-building which the War stimulated, it is two-thirds debit and one-third credit. America possesses about one sixth of the total tonnage of the world (about half as much as Great Britain.) In 1928 the United States paid to foreigners $432 million for carrying her foreign trade and received $240 million for similar services rendered by her ships.

But probably the most significant thing revealed by the balance of payments report is the fact that the outside world, chiefly Europe, keeps about three billion dollars in America in the form of short-term deposits, as compared with less than half that amount kept by Americans abroad. Part of these deposits are floating funds awaiting demand or reinvestment. But the larger portion is held to cover international commercial transactions in which the dollar is the medium of payment.

This means that New York is rapidly advancing to the position of the commercial centre of the world. Before the War, London was the world centre both for investment and for the financing of international trade. During the War, New York leaped into the position of financial centre, the single reservoir from which reserves of wealth could be borrowed in conspicuous quantities. Some persons also imagined that New York would become the central clearing house for world commerce. This did not happen; London understood the technique better than New York, and centuries of habit continued to look to

sterling exchange in settlement of international commercial payments. But, as American trade grows, the dollar is becoming increasingly useful to international commerce, as compared with the pound. A merchant in Santiago, Chile, shipping goods to Hamburg, must choose whether he wishes a draft in dollars or in pounds; he has no desire for a draft in local money, for he intends to use the draft to pay for goods he is importing from China. Which is the world currency which he prefers? Before the War, he would have said sterling as a matter of course. Now he is beginning to say dollars. It is chiefly to meet this demand for dollar exchange that foreigners keep so heavy a floating balance in New York. America has not yet supplanted England as the world's commercial money centre, but it is steadily on the way.

One more thing is revealed by the balance of payments report, a thing which thumbs its nose at all the economists' rules. The gold imported into America, in payment of exports, which brought its supply past 40% of the world's monetary stock, did not raise prices. On the contrary, prices diminished somewhat during this gold-importing period. It did expand credit, and much of this credit flowed to Europe. But the American price level remained steady, with a downward trend. Once more America has defied the rules of economics, and (except for a whirl on the stock exchange) no unpleasant results have been experienced. The fact is that America is making economic theory, and the economists (who, to do them justice, have generally not been seeking to impose

"laws" but to ascertain and describe facts) are still trying to keep pace with it.

America's Future

The balance of payments report thus clearly tells several facts about recent history, chiefly: that the United States has become the magnetic centre of world trade; that she has become the second nation in the world in respect to merchant marine; that she has become the world's financial centre in respect to investments and is on the way to becoming the financial clearing house for international trade; and that the American people are leading their own economic life, neglecting or defying the rules which economists have laid down for her.

But what of the future? How long can these conditions continue? Is this, after all, a boom period, which must be succeeded by a painful deflation of investments and hopes? What has the balance of payments report to say about the future?

Economists, as we have said, like to divide the life of nations into periods—not seven, as Shakespeare did for men, but into four. In the first period a "young" nation borrows capital from abroad, and receives the equivalent in the form of an excess of imported goods over goods exported. In the second period it pays interest on the capital borrowed and amortizes the principal by means of an excess of exports over imports. In the third period

(having now become rich) it lends money abroad, likewise in the form of a surplus of exports over imports. And in the fourth period (now a greasy, complacent capitalist) it receives interest on its loans in the form of an excess of imports over exports.

American history hitherto has neatly illustrated this theory. In the period 1850–73 the American trade balance was almost consistently "adverse." That meant that the United States was receiving capital (goods which she couldn't at the moment pay for) from abroad. After 1873 she paid interest on her borrowings by sending to Europe cotton and wheat in greater value than the steel rails and other manufactured articles which she imported. But by 1916 the United States had entered the "third period." She had bought up many of her old obligations, giving war supplies in exchange, and had loaned so much new capital abroad that she had become a creditor nation. She then began to export capital, and this she did, as shown by her balance of exports over imports, to the extent of $12,000 million during the period of the War. When will America enter the "fourth period?" When will the United States begin to receive a net interest payment on her foreign loans, as Great Britain has been doing for decades; when will she begin importing more than she exports; when, in other words, will she begin receiving a net "tribute" from the outside world?

One fact that would seem definitely established by this and previous reports is that the export surplus can be sustained only by means of loans abroad. There is an

extraordinarily close correlation between the net merchandise account, and the net volume of foreign loans. It would seem that foreign nations are able to pay for American goods only to the extent to which they can export their goods, and if they are to import more, then American dollar exchange must be provided for them through loans.

But these increasing loans entail the payment of increasing interest, which "normally" would be received in the form of additional imported goods. If the United States wishes to prevent the inflow of these foreign goods, by means of a high tariff, then she must loan ever more each year, and thereby increase still further the interest charges and the magnitude of the problem.

It may be expected that, because of the eagerness of American industry to export, these loans will continue for many years. There is no reason why American loans abroad should not reach a total of $25,000 million, or even $50,000 million. We are living in an age of gigantic transactions, and it is only natural that Great Britain's peak figure of $20,000 million should be far surpassed.

But at some time—however long the date may be delayed—the peak of American investments will be attained. In this period, most economists have supposed, America must necessarily lower its tariff and adjust its mind and its economy to receiving more merchandise than it sells. The invariable concomitant of the "fourth period" is an "unfavorable" trade balance. Indeed, there is already a strong current in financial circles in favor of

beginning immediately the work of steady tariff reduction.

Against this, of course, operates the exuberance of American industry which insists upon sustaining the productive rhythm acquired and selling its goods to the far corners of the earth. But there is another special circumstance which operates to keep the American tariff high. That is the relative self-sufficiency of the United States in food and raw materials. The analogy with Great Britain here breaks down altogether. England is overpopulated, in the technical sense that her territory cannot feed her population. She is obliged to import half of her food, and two thirds of her principal food, wheat, besides many raw materials, such as cotton, in which she is wholly lacking. Therefore England welcomes these shipments from abroad, necessary to her very existence. And, therefore, England is quite naturally a free trade country. But the United States is virtually self-sufficient in food. Her principal food imports are sugar and coffee. Coffee, which comes mainly from Brazil, is hardly a necessary food; sugar, which comes mainly from Cuba, can be brought within the American tariff wall at any time policy dictates—it is for practical purposes home grown. Of the raw materials, only two, silk and rubber, are important in quantity. Hence, with a few exceptions, it may be said that the United States needs no imports; what she buys from abroad is luxuries. Not Australian wheat, but Paris gowns, is the characteristic of her import account.

Must the United States, then, some day surrender to economic fate, lower her tariff and receive all sorts of the world's goods to compete with her own? It would seem inevitable, yet this remarkable report states: "It is impossible to predict with assurance that the United States will ever have an unfavorable balance of trade."

How, then, will America escape from the clutches of economic law? For one thing, immigrants' remittances, which formerly went a long way toward helping it to square its foreign accounts, are not going to help it. With the limitation of immigration, the volume of these remittances has steadily diminished. From $700 million in 1919, they have already dropped to $217 million, and it may be expected that as recent immigrants are absorbed the amount will drop still lower. So the dilemma would seem to be tighter than ever.

But American ingenuity has hit upon two ways of squirming out—two ways which never occurred to the old economists as important. Being blocked, by tariffs and low purchasing power abroad, in the export of American products, it is now exporting American industries. American branch plants are being spawned abroad in unbelievable numbers. There are said to be fifteen hundred of them in Canada, and probably a hundred in Germany, some very large, working with foreign labor behind the foreign tariff wall, importing the raw materials or semi-finished parts, and then finishing and assembling for the local market. There are as yet no satisfactory statistics on this new phase of the American

empire, but it must account for hundreds of millions of dollars of American raw and semi-finished goods sold, and it is constantly growing.

The second means of escape from the dilemma is the tourist traffic. The old economists considered this a minor item, useful in balancing accounts. But it has become, to everybody's surprise, absolutely dominant in the American account. This can take care of interest payments indefinitely. While most of the items in the balance are, as we have seen, very stubborn, this one is indefinitely expansible.

There were 437,000 Americans who went by sea to foreign countries in 1928. But why 437,000? Why not 700,000, or a million? Why not two million? What is to prevent everybody in the United States from taking a jaunt to Europe when he feels like it? The idea is startling only because it is unprecedented. But precedent is not binding. There is here no counter force or inertia to prevent expansion, as in the case of the tariff. On the contrary, foreign travel is eagerly grasped by almost anybody who has the means. It is the great safety valve of the American balance of payments.

If the United States government will educate every man, woman and child in the land to the desirability of foreign travel, then it may continue its high tariff and aggressive foreign trade policies as long as it likes, far into the misty future, and never have to worry about making accounts balance.

So it comes to this: the peculiar structure and nature

of America is forcing American citizens and American industries to roam the earth. The *Wanderjahre* have just begun. Year after year these Americans will be streaming forth by the hundreds of thousands, by the millions, learning to know and respect strange peoples, coming to appreciate and love things of beauty. Culture—not in the sense of knowing the names of the old masters, but in the sense of acquiring the mellow and flexible personality which is necessary for a happy life amid the complexities of the machine age—has become the natural heritage of the American people. By force of economic circumstance America has been driven to empire, and the American is becoming a citizen of the world.

CHAPTER XII

THE COMING IMPERIAL SETTLEMENT

THE United States, as has been said, is still in the "third period" of a nation's development—that in which it is lending abroad more money than it receives as interest on previous loans. But there must come a "fourth period," in which the United States will be due to receive more each year than she lends.

When this period begins, the United States will be receiving an annual tribute from all corners of the globe, of a magnitude to make the tribute of the Roman *fiscus* seem but a neighborhood transaction. How large this tribute will be is a matter of guesswork. Great Britain's overseas tribute from foreign investments is now well over a billion dollars. That of America is somewhat less. It may be taken for granted that America's foreign investments will reach a gross sum of at least twenty-five billion dollars, and that they will probably approach nearer to fifty. Such sums will be offset by very considerable foreign investments in the United States. But the net tribute will in all probability soon be some two billion dollars or more.

When will this "fourth period" be inaugurated? That is entirely a matter of guesswork. Almost certainly not for

ten years. Perhaps not for fifty. The ability of America to supply surplus capital steadily to the outside world is unquestionable. But the ability of the outside world to offer satisfactory security, the ability of America to receive payment without impairing its productive rhythm, the extent to which America will consent to receive payment in other forms than that of goods—these are questions whose answers depend largely on events in the outside world.

What will America do with its annual tribute of two billion or more dollars? That is a question which concerns the whole future of American culture. It is a question which economics cannot answer. Only the poets, the artists, the novelists, the prophets of America can answer. What will America do with its luxury tribute?

Take trips to Europe, certainly, and study the paintings in the Uffizzi Gallery. Endow scientific research in the old world. Rescue the unfortunate, beyond question. Buy castles in Spain, and villas in Paris. Drink the finest Moselle wines. Collect first editions of early English authors. Restore the temples of the Acropolis (if Pallas Athena does not strike them dead). Or clothe its stenographers in new Paris models.

What a nation does with its leisure and its surplus wealth is the final test of its culture. But it is probable that, just as America has thought of ways of creating wealth which had hitherto not been imagined, so it will also think of unforeseen ways of consuming the fruits.

It is, as has been said in another chapter, doubtful if

America will ever physically import this tribute at all. Rather, it may flow back to the outside world in ever increasing volume. But what the relations of such an America with the rest of the world would be, what the word "American" would signify in the history of human society, is to be left to the poets who shape the values of life for the common man.

European Possibilities

The first major foreign obstacle which America will have to face is some measure of commercial defense against its products in Europe. The active promotion of American export trade is the one definite and deliberate world-policy which America has yet evolved. Europe resents this and resents particularly the high tariff which prevents it from exporting abundantly to America, or in other words, from paying for the goods which it buys from America. In reality, as has been suggested, what ails Europe is the inability to produce cheaply in competition with American goods, because its market is split by tariff barriers and artificial trade restrictions. Europe has begun to realize this, and is attempting to devise measures to correct it. Preferential tariffs, elimination of trade barriers, and attempts at a customs union will be among the measures adopted. All will tend to enable Europe to produce on the American scale and with American efficiency.

As economic pan-Europe comes into being, there will be a loud cry raised in America about the European block against American goods. This is one of the hazards which a great exporting nation must accept. But pan-Europe will continue to be a customer of the United States, and a pan-Europe which can produce more cheaply will have more purchasing power for American products. Pan-Europe—in spite of the fact that it would have three times the population of the United States—would never be able to adopt and utilize the full-grown machine as America is now doing. But it would certainly be able to provide for itself some of the products which it now buys from America. However, as the United States Department of Commerce continues to insist, the international balance of payments has a surprising faculty for adjusting itself to new economic realities. A richer Europe would be able to buy more goods from America—but just which goods we cannot foresee.

Yet Europe's present feeble attempts toward economic federation may well be interrupted by war. There are all the makings of a disastrous war in Europe, and all the means of making it. It is one of America's major interests to prevent such a war. For if European economy cannot sustain itself as it is, and cannot devise a better system, it will seek something new. That something new lies just over the border of Russia. If Europe cannot apply the lesson of the machine age—that prosperity comes from enabling others to buy the product of the machine—then Russia will try in her own way to help it.

To bring the republics of the western hemisphere wholeheartedly into the political orbit of the United States is obviously an American interest. This is largely a task of the future. Pan-America is as yet no integral association of nations. Yet it may well become such, and its economy, supplemented by Asia, would make America indifferent to the mishaps of Europe. It is curious that at the Pan-American conference of 1889 the United States proposed a Pan-American customs union, which was rejected by the South American states; whereas at the 1928 Conference some of the Latin States made the same proposal, to see it rejected off-hand by the northern neighbor.

"The Modern Rome"

The vast and overshadowing potential strength of the American empire has caught the imagination of many Europeans, who see in it a recreation on a larger scale of the empire of Rome. Here is the sturdy, unimaginative nation of the west, gradually conquering the old and cultured peoples across the sea, commanding tribute from all corners of the earth, sucking in their thought and beauty without understanding, importing their pictures and statues to adorn its houses, crushing them under the new efficiency, at last to disintegrate as "wealth accumulates and men decay." The analogy is tempting. But there is no logical compulsion to believe that America

will go the way of Rome. The Roman system, at the height of its splendor, was economically unhealthy. Very literally, it was rotten at the core. Italy was an economic void; it was not supporting its population. It lived on the tribute wheat of Africa and Egypt. To insure the collection of tribute it maintained armies. To maintain its armies it was obliged to collect tribute. So the vicious circle of army-tribute-army continued until a great plague throughout the empire, in the reign of Marcus Aurelius, broke it. From that time on, the majestic Roman system was an anarchy.

The position of America is precisely the opposite. The American system is based on the very fact that the country more than pays its way in the world, that it produces and must send abroad more than it consumes. To a peculiar degree the American empire is a machine empire, and this fact will give it unique qualities of strength.

But the American Empire is not made by machines, nor by "destiny." It is made by men. It is not foreordained to be either a blessing or a curse. Whatever it comes to be, it will be the conscious or the blundering creation of Americans, moulding great historic processes into forms which will either serve or crush mankind.

This empire is not a thing to be ashamed of, nor to be denied. It exists and is growing. But it can be moulded into beneficent shapes only if America understands what is going on and accepts responsibility for what comes of it.

This can be done only if the American people become

what the British call empire-conscious. If they continue to think in the patterns which were appropriate to another age, they will simply get in history's way. They must make their minds receptive to the kind of thoughts which empire needs.

The great opportunity for the American empire lies in the fact that its selfish interest coincides with the need of the world, the need for peaceful, creative development. "A world which is safe for the dollar," says the *Manchester Guardian* editorially, "is safe for peace." The selfish forces which are creating empire may also, when guided by enlightened and far-sighted understanding, promote the brotherhood of man. Christian ethics were at home in the Roman Empire, which comprised the whole known world. They will be at home again, and no longer in conflict with national patriotism, when another such empire exists.

NOTES TO CHAPTER I

THE distinction here drawn between the tool and the machine is perhaps not wholly accurate. The sailboat is power-driven and so is the water-mill. On the other hand, some hand-driven tools can increase the quantitative output of the individual worker. But the exceptions are relatively few. The multiplication of the power-driven tool, called the machine, is certainly the distinguishing characteristic of the period since 1780.

The Ford factory is taken as a symbol, rather than as a demonstration, of the strategy of the machine age. Mr. Ford's high wage scale has been characterized as a device to hire the best workmen from rival factories; to create a permanent labor reserve, to combat union labor, to permit an unrestrained speeding-up, and to create subservience in the individual worker. Undoubtedly the Ford factory by itself has only a limited economic importance. But when the Ford system was extended to thousands of factories, as it was in the next twenty years, it began to create an economic epoch.

"It has been estimated that in 'real wages'—the purchasing power of a day's work—where the average

Philadelphia laborer receives $1.00, the London worker gets 60 cents, the Parisian 41, the Berliner 40, and the Roman 28." John Carter, "Conquest" (Harcourt, Brace and Co., 1928.)

Some of the Bulletins of the Chase National Bank of New York give statistical demonstration of how the quantity theory of money, "one of the best authenticated of economic principles," has been smashed by recent American experience.[1]

The wages fund doctrine which was taught in the universities as recently as ten years ago as one of the eternal verities mathematically demonstrable, has not even had the honor of decent burial. Probably no American economist has taken the trouble to prove that it has been disproved, simply because everybody has forgotten that it ever existed. But it is still highly cherished in many parts of Europe.

The United States of America, containing 7% of the world's territory and 5.7% of its population, produces

90% of the world's motor cars
66% of the world's oil
60% of the world's cotton
55% of the world's timber

[1] See especially appendix to Vol. IX, No. 3—May 1929.

40% of the world's iron and steel
38% of the world's electric power
85% of the world's films;

owns

80% of the world's motor cars
61% of the world's telephones
45% of the world's stock of monetary gold;

consumes

75% of the world's rubber
75% of the world's petroleum
65% of the world's raw silk
50% of the world's hydroelectric power;

and possesses

40% of the estimated capitalized wealth of the world.

"America definitely lost money by the War." Harvey E. Fisk in "The Inter-Ally Debts" (Bankers Trust Company Publications, 1924) says: "By 1913 [the national income of the United States] had reached $34,400,000,000 and in 1923 in '1913 dollars'[2] was probably in the neighborhood of $31,000,000,000.

[2] Equivalent purchasing power.

The following table, from the Commerce Report of the United States Department of Commerce of May 14, 1928, gives the total amount of capital issues offered in the United States in post-War years, and the amount thereof which were placed abroad:

	Total Issues million	Foreign Issues million
1920	$3,635	$ 585
1921	3,082	651
1922	4,275	682
1923	4,304	414
1924	5,593	928
1925	6,220	1,085
1926	6,344	1,135
1927	7,735	1,376
	$41,186	$6,836

NOTES TO CHAPTER II

THE origins of the traditional American foreign policies are admirably and swiftly narrated in "American Foreign Relations 1928" published for the Council on Foreign Relations, New York, under the direction of Charles P. Howland (Yale University Press, 1928), from which a number of the quotations in this chapter are taken.

The figures on foreign trade and investment in this chapter are taken from the article by Williams, Bullock and Tucker on the balance of trade in United States history published in "The Review of Economic Statistics," July 1919. This essay is an extraordinary piece of work. It deals precisely in that field of economic research in which information is the least available and the least reliable. It is an exercise in expert guessing. But it achieves what American history has long lacked—a documented picture of America's economic foreign relations from the beginning—because it has the courage to supplement meagre statistical information with inductive imagination. The United States Department of Commerce is now doing the same thing year by year in the annual Balance of Payments reports under the direction of Ray Hall, but

with the aim of reducing the area of guesswork to the minimum.

Williams, Bullock and Tucker give the following table of American foreign trade from 1821 to 1914 in annual averages for the periods cited (in millions of dollars):

	Exports	Imports	Balance
1821–37	82	93	–11
1838–49	116	113	+3
1850–73	274	338	–64
1874–95	783	670	+113
1896–1914	1691	1204	+487

NOTES TO CHAPTER III

WILLIAMS, BULLOCK AND TUCKER, in the study cited above, give the following table estimating foreign investments in the United States and American investments abroad in 1899:

INVESTED IN THE UNITED STATES BY		INVESTED BY AMERICA IN	
Great Britain	$2,500 million		
Holland	240	Europe	$ 10 million
Germany	200	Canada	150
Switzerland	75	Mexico	185
France	50	Cuba	50
Belgium	20	Other Antilles	10
Rest of Europe	15	Latin America	45
Cuba	30	Pacific	5
Rest of America & China	15	Life Insurance	45
Life Insurance	185		
	$3,330 million		$500 million

The Porter Resolution. The remarks of General Porter in supporting his resolution eloquently present the moral and practical arguments for the non-interventionist course—a course which the United States was soon to abandon. They are quoted in "Economic Foreign Policy of the United States," by Benjamin H. Williams (Mc-

Graw Hill Book Company, 1929). The work is an extremely useful handbook of American theory and practice in this field.

Details of United States interventions in the Caribbean region are given with ample documentation in Benjamin Williams, cited above, and in Nearing and Freeman, "Dollar Diplomacy" (B. W. Huebsch and the Viking Press, 1926). John Carter in "Conquest" (Harcourt, Brace and Howe, 1928) gives much information about American expansion in the Caribbean, and supports the view that it conforms to the inherited traditions of the United States.

The story of United States intervention in Haiti is vigorously told in Nearing and Freeman, cited above, and is here reproduced by kind permission of the publisher:

The military invasion of Haiti by the United States and the establishment of a virtual protectorate is the result of two parallel lines of policy, one political and one financial, which converged and became amalgamated in one unified policy carried out jointly by American financiers and the State Department.

A report of twenty-four distinguished American lawyers [1] on Haiti points out that Haiti was a sovereign state

[1] The twenty-four lawyers were Frederick Bausman, Seattle; Alfred Bettman, Cincinnati; William H. Brynes, New Orleans;

under a republican form of government from 1804, when she won her independence from France, until 1915, when the United States forced her to sign a treaty even more drastic than that foisted on Santo Domingo. Haiti has a population of three million people living under more or less primitive economic conditions and subject to occasional political disturbances. Despite these disturbances, the report declares, no American citizen has ever been injured in person or property, and even during revolutionary outbreaks no foreigner was molested. Foreign investments were at all times respected and the interest on Haiti's foreign debt scrupulously paid. "Her relations with other governments have been free from adverse criticism. She has never manifested hostility to the United States and has given no occasion for our intervention in her affairs." [2]

America's earlier interest in Haiti was naval. In 1847 the United States attempted to obtain control of the har-

Charles C. Burlingham, New York; Zechariah Chafee, Jr., Cambridge; Michael Francis Doyle, Philadelphia; Walter L. Flory, Cleveland; Raymond B. Fosdick, New York; Felix Frankfurter, Cambridge; Herbert J. Friedman, Chicago; John P. Grace, Charleston, S. C.; Richard W. Hale, Boston; Frederick A. Henry, Cleveland; Jerome S. Hess, New York; William H. Holly, Chicago; Charles P. Howland, New York; Francis Fisher Kane, Philadelphia; George W. Kirchwey, New York; Louis Marshall, New York; Adelbert Moot, Buffalo; Jackson H. Ralston, Washington, D. C.; Nelson S. Spencer, New York; Moorfield Storey, Boston; Tyrrell Williams, St. Louis.

[2] Foreign Policy Association, "Seizure of Haiti."

bors of Samana Bay, on the eastern coast of Santo Domingo, and of Mole St. Nicholas, on the northwest coast of Haiti, for avowed use as naval bases. In 1891 the United States sent Admiral Gharardi with a considerable fleet to Port au Prince, capital of Haiti, to negotiate for the cession of Mole St. Nicholas, but the Haitian government refused to discuss the matter and the fleet was recalled.

Enter the National City Bank

It was with the entrance of the National City Bank into Haiti that State Department interference became a a definite policy. In 1881 the National Bank of Haiti, founded with French capital, was entrusted with the administration of the Haitian treasury. In 1910 this bank was reorganized in connection with a new government loan taken by French bankers, and replaced by the National Bank of the Republic of Haiti, which, like the old institution, was entrusted with the administration of the Haitian treasury. Under the contract with the French bankers the bank was to make certain annual loans to the Haitian government.[3]

At this juncture the National City Bank became interested, and Secretary of State Knox, pursuing his policy of "dollar diplomacy," intervened in the matter and ob-

[3] U. S. "Haiti Hearings," p. 105.

jected to the contract, saying that "some American banking interests ought to be represented." He called a conference of the New York bankers, with the result that in 1911 the National City Bank, Speyer & Co., Hallgarten & Co., and Ladenburg, Thalman & Co. each became subscribers to 2000 shares of the new bank.[4]

Shortly after the European War broke out, Secretary of State Bryan in several interviews with the American bankers "suggested the advisability of the American interests acquiring the French shares in the bank, and making it an American bank. That suggestion was repeated from time to time, and after some extended conferences, . . . the National City Bank purchased the stock held by the other three American parties." This was in 1917. Two years later, "after several suggestions from the State Department . . . the National City Bank purchased all the assets of the French institution" for $1,400,000.[5] Thus the National Bank of Haiti became the property of the National City Bank of New York.

The State Department began to take steps to insure the bankers' investment. On six occasions during 1914 and 1915 the Department made direct overtures to Haiti to obtain control of the customs, internal political disturbances furnishing the pretext. In October, 1914, Secretary of State Bryan wrote to President Wilson:

[4] Idem.
[5] Ibid., p. 106.

"It seemed to me of the first importance that the naval force in Haitian waters should be at once increased, not only for the purpose of protecting foreign interests, but also as evidence of the earnest intention of this Government to settle the unsatisfactory state of affairs which exists." [6]

The State Department took advantage of a revolutionary outbreak in the north province to propose to President Zamor that he be kept in power provided he would sign a convention turning over the customs houses to American control. The President refused to compromise the independence of Haiti and resigned. On December 10 the newly chosen president was formally presented with a similar proposal by the American minister in Haiti, and again the proposal was turned down.[7]

One week later a contingent of United States marines landed in Port au Prince,[8] proceeded to the vaults of the National Bank of Haiti, and in broad daylight forcibly seized $500,000 and carried it aboard the gunboat *Machias.* The money was transported to New York and deposited in the vaults of the National City Bank. This money was the property of the Haitian Government and had been deposited for the redemption of paper currency. Haiti at once protested against this violation of her sovereignty

[6] Foreign Policy Association, supra, p. 4.
[7] U. S. "Haiti Hearings," pp. 5–6.
[8] U. S. "Foreign Relations," 1915, p. 476.

and her property rights and requested an explanation from the United States. None was ever given.[9]

According to the testimony of Roger L. Farnham, Vice President of the National City Bank, before a Senate Committee in 1921, this raid of the marines was arranged by the State Department and the National City Bank.[10] The chief object of the State Department and the bankers at this time seems to have been to force the Haitian Government, by depriving it of ready money, to sign a treaty turning over the customs houses to American control. On January 28, 1915, Secretary of State Bryan wired via the Navy Department to Admiral Caperton, in command of American forces in Haitian waters, as follows:

"You will issue to that Government a warning that any attempt that might be made to remove the funds of the bank will compel you to take into consideration means to prevent such violation of foreign stockholders' rights." [11]

In March, 1915, the United States sent the Ford mission to negotiate with the Haitian government for American control of the customs, and again Haiti turned the proposal down. In May another commission arrived and presented the draft of an agreement providing for (1) military protection and intervention by the United States,

[9] "Current History Magazine," v. 15, p. 886. U. S. "Haiti Hearings," p. 6. U. S. "Foreign Relations," 1915, pp. 499–500.

[10] U. S. "Haiti Hearings," p. 123.

[11] Ibid., p. 292.

(2) arbitration of claims made by foreigners, (3) prohibition of the cession of Mole St. Nicholas or its use to any other government. The last clause would indicate that the political aims of Washington and the financial aims of the National City Bank were now fused into one project.[12]

The Marines Take Possession

This proposal was being negotiated when on July 27 a revolution broke out in Port au Prince. President Guillaume fled to the French legation, and on the same day a number of political prisoners were massacred in the prison of Port au Prince. On the morning of July 28 President Guillaume was dragged out of hiding and killed. During all these disturbances not a single American or other foreigner was molested.[13] Nevertheless, on the afternoon of July 28 an American warship dropped anchor in the harbor of Port au Prince and marines were landed by Admiral Caperton.[14] The revolution was not the cause for landing marines but merely the "awaited opportunity," for the marines were landed "at the request of the State Department." [15]

The Haitian legislature met to elect a new president to

[12] Foreign Policy Association, supra, p. 5.

[13] Foreign Policy Association, "Seizure of Haiti." Johnson, "Self-Determining Haiti," p. 7.

[14] U. S. Marine Corps, "Report on Haiti," p. 3. U. S. "Haiti Hearings," p. 306.

[15] Johnson, supra, p. 7. U. S. Marine Corps, supra, p. 4.

fill the vacancy caused by the assassination of Guillaume. Under orders from the State Department, Admiral Caperton forced the legislature to postpone the election until the American naval officers could canvass the situation. The purpose of this interference with the elections of a nominally independent republic is shown in the message sent by Admiral Caperton to the Navy Department on August 2, 1915:

"Large number Haitian revolutions, largely due existing professional soldiers called Cacos. . . . They have demanded election Bobo President. . . . Stable government not possible in Haiti unless Cacos are disbanded and power broken.

"Such action now imperative at Port au Prince if United States desires to negotiate treaty for financial control of Haiti. To accomplish this must have regiment of marines in addition to that on Connecticut. . . . As future relations between United States and Haiti depend largely on course of action taken at this time, earnestly request to be fully informed of policy of United States." [16]

Admiral Caperton now attempted to force, at the point of marine bayonets, the treaty which the State Department and the National City Bank had failed to obtain through negotiation and through financial pressure. The first step was to obtain a candidate who would be willing

[16] U. S. "Haiti Hearings," p. 313.

to serve American purposes. Such a candidate was found in the person of Sudre Dartiguenave, who offered, if elected president of Haiti, to accede to any terms made by the United States, including the surrender of customs control and the cession of Mole St. Nicholas.[17] Regarding this candidate Admiral Caperton wired the Navy Department at Washington on August 5, that he "has never been connected with any revolution" and "realizes Haiti must agree to any terms laid down by the United States. . . . If elected must be sustained by American protection." [18] Dartiguenave was acting not out of choice, but out of a realization that before the rifles of American marines Haiti was helpless. He begged only "as far as possible to avoid humiliation." [19]

Admiral Caperton, frankly protecting the interests of the National City Bank, ordered the government of Haiti to restore the treasury service to the National Bank of Haiti, which the government had withdrawn in January when it discovered that it could not draw money at its own discretion.[20]

Having found a candidate willing to accept Washington's terms, the Navy Department wired on August 10 that Admiral Caperton might "allow election of president to take place whenever Haitians wish. The United States

[17] Foreign Policy Association, supra, p. 6. U. S. "Haiti Hearings," p. 315.

[18] Ibid., p. 312.

[19] Ibid., p. 325. U. S. "Foreign Relations," 1915, p. 431.

[20] U. S. "Haiti Hearings," p. 323.

prefers election of Dartiguenave . . . United States will insist that the Haitian government will grant no territorial concessions to any foreign governments. The Government of the United States will take up the question of the cession of Mole St. Nicholas later along with the other questions to be submitted to the reorganized Government." [21] These other questions referred to the control of customs and the protection of the National City Bank's investments. "In order that no misunderstanding can possibly occur after election," the Secretary of State wired on the same day to the American Minister at Port au Prince, "it should be made perfectly clear to candidates, as soon as possible, and in advance of their election, that the United States expects to be entrusted with the practical control of the customs and such financial control over the affairs of the republic of Haiti as the United States may deem necessary for efficient administration." The message added, significantly, that the United States would support a government elected under these terms "as long as necessity may require." [22]

On the day on which the Haitian legislature voted for the new president, marines guarded the doors of the chamber and Admiral Caperton's chief of staff circulated among the congressmen.[23] Dartiguenave was elected.

[21] Ibid., p. 315. U. S. Marine Corps, supra, p. 16.

[22] U. S. "Haiti Hearings," p. 315. U. S. "Foreign Relations," 1915, pp. 479–480.

[23] Foreign Policy Association, supra, p. 6.

Martial Law in Haiti

Two days after the election, Robert Beale Davis, American Chargé d'Affaires at Port au Prince, submitted to the new Haitian Government the draft of a treaty, accompanied by a memorandum stating that the State Department at Washington expected that, "the Haitian National Assembly . . . would immediately pass a resolution authorizing the President of Haiti to accept the proposed treaty without modification." [24] This new draft, resting as it now did on armed force, went much further than previous drafts. Not only did it provide for American control of customs and finances, but in addition called for a native constabulary to be "organized and officered by Americans" and forbade Haiti to sell or lease any of its territory to a foreign government. With these terms, Secretary Lansing observed in his cablegram of August 24, the Haitian Government had been familiar for more than a year.[25]

But Haiti was no more willing than before to give up its life as an independent republic. The State Department seemed to have been aware of this; to insure the acceptance of the treaty by the Haitian Government, Admiral Caperton was ordered to seize ten of the principal customs houses, to collect the customs dues, to organize a

[24] U. S. "Haiti Hearings," p. 8.
[25] Ibid., p. 328.

constabulary and temporary public works, and to support the new Haitian administration.[26] Admiral Caperton realized the full significance of this order. On August 19 he cabled to Washington:

"United States has now actually accomplished a military intervention in affairs of another nation. Hostility exists now in Haiti and has existed for number of years against such action. Serious hostile contacts have only been avoided by prompt and rapid military action which has given United States control before resistance has had time to organize. We now hold capital of country and two other important sea-ports." [27]

Between August 21 and September 2 the American forces took over the customs houses at the ten leading ports of Haiti.[28] For several months American naval officers collected all customs dues and made all disbursements. Since the customs houses were the only source of national income, this deprived the Haitian Government of all income and added to the already existing pressure for the ratification of the proposed treaty. Opposition to the acts of the United States and to the treaty spread throughout the country. President Dartiguenave and his cabinet threatened to resign. Caperton wired Washington

[26] Foreign Policy Association, supra, p. 8. U. S. Marine Corps, "Report on Haiti," p. 19.

[27] U. S. "Haiti Hearings," p. 335.

[28] "Current History Magazine," v. 15, p. 887. U. S. Marine Corps, supra, pp. 19–23.

that in case they did resign a military government should be established with an American officer at the head. "Present is most critical time in relations with Haiti," he cabled, "and our decision now will, to a great extent, determine future course. If military government is established, we would be bound not to abandon Haitian situation until affairs of country are set at right and predominant interests of the United States of America secured." [29] These predominant interests which were to be secured by a military dictatorship were embodied in the proposed treaty. To one of his captains in Haitian waters Admiral Caperton explained: "We are having our own troubles in Port au Prince endeavoring to get the treaty through. Things are not entirely satisfactory, and I may be forced to establish a military government here." [30]

By September the forces under Admiral Caperton were in complete control of Haiti, guarding all the principal towns, collecting and spending all revenues, and turning none of the money over the the Haitian Government. "Public order and the public purse were altogether in the mastery of the Navy Department." [31] On September 3, martial law was formally declared.[32] The object was, of course, to push the treaty through. "Successful negotiation of treaty is predominant part of the present mission," Admiral Caperton wired to the commanding officer of the

[29] U. S. "Haiti Hearings," p. 338.
[30] Ibid., p. 343.
[31] Foreign Policy Association, "Report on Haiti," p. 9.
[32] U. S. "Foreign Relations," 1915, p. 522.

battleship *Connecticut* in northern Haitian waters. "After encountering many difficulties treaty situation at present looks more favorable than usual. This has been effected by exercising military pressure at propitious moments in negotiations. Yesterday two members of cabinet who have blocked negotiations heretofore resigned. President himself believed to be anxious to conclude treaty. At present am holding up offensive operations and allowing President time to complete cabinet and try again. Am therefore not yet ready to begin offensive operations at Cape Haitien but will hold them in abeyance as additional pressure." [33]

As a result of this "additional pressure" the Haitian Government signed the treaty without modification on September 16, 1915, and a modus vivendi was drawn up for its immediate application. But the work of Washington was not yet done. Under the Haitian constitution, as under that of the United States, no treaty is binding unless ratified by the Senate. The opposition there seemed to be irreconcilable to American conquest. Thereupon Admiral Caperton, acting under instructions from Washington, seized a consignment of unsigned bank notes intended for the Haitian Government and declared that they would be turned over to the Haitian authorities immediately after ratification of the convention.[34] On October 3, Secretary of the Navy Daniels authorized Admiral Caperton to arrange for the payment of a weekly

[33] U. S. "Haiti Hearings," p. 353.
[34] Ibid., pp. 379–383.

amount to the Haitian Government for current expenses, adding that "question payment back salary will be settled by department immediately after ratification of treaty." [35]

On November 10, Secretary Daniels cabled Admiral Caperton a message which is the epitome of government support of American investments.

"Arrange with President Dartiguenave," the cable read, "that he call a cabinet meeting before the session of senate which will pass upon ratification of treaty and request that you be permitted to appear before that meeting to make a statement to President and to members of cabinet. On your own authority state the following before these officers: 'I have the honor to inform the President of Haiti and the members of his cabinet that I am personally gratified that public sentiment continues favorable to the treaty; that there is a strong demand from all classes for immediate ratification and that treaty will be ratified Thursday. I am sure that you gentlemen will understand my sentiment in this matter, and I am confident if the treaty fails of ratification that my Government has the intention to retain control in Haiti until the desired end is accomplished, and that it will forthwith proceed to the complete pacification of Haiti so as to insure internal tranquillity necessary to such development of the country and its industry as will afford relief to the starving populace now unemployed. Meanwhile the present Government will be supported in the effort to secure stable conditions and lasting peace in Haiti, whereas those offering

[35] Ibid., p. 383.

opposition can only expect such treatment as their conduct merits. The United States Government is particularly anxious for immediate ratification by the present senate of this treaty.' . . . It is expected that you will be able to make this sufficiently clear to remove all opposition and to secure immediate ratification." [36]

Admiral Caperton made the situation so clear that the treaty was ratified by the Haitian Senate on the very next day, November 11, 1915.

The Treaty

Article Two of the treaty, forced upon Haiti by the combined efforts of the State and Navy Departments and Admiral Caperton's marines, provided that "the President of Haiti shall appoint, upon nomination by the President of the United States, a general receiver . . . who shall collect, receive, and apply all customs duties on imports and exports accruing at the several customs houses and ports of entry of the Republic of Haiti." It is also provided that "the President of Haiti shall appoint, upon nomination by the President of the United States, a financial adviser, who shall be an officer attached to the ministry of finance, to give effect to whose proposals and labors the minister will lend efficient aid."

Article Five provided that "all sums collected and re-

[36] U. S. "Haiti Hearings" p. 394. U. S. "Foreign Relations," 1915, p. 458.

ceived by the general receiver shall be applied, first, to the payment of the salaries and allowances of the general receiver, his assistants, and employees, and expenses of the receivership, including the salary and expenses of the financial adviser . . . second, to the interest and sinking fund of the public debt of the Republic of Haiti; and, third, to the maintenance of the constabulary . . . and then the remainder to the Haitian Government for the purposes of current expenses."

Under Articles Eight and Nine, Haiti was forbidden to increase its public debt or modify its customs duties without the consent of the United States. Article Ten called for "an efficient constabulary, . . . composed of native Haitians," which shall be "organized and officered by Americans," which shall, among other things, supervise and control arms and ammunition and military supplies. By Article Eleven Haiti was forbidden to surrender "by sale, lease or otherwise" any of its territory. The treaty was to remain in force for ten years, and "further for another term of ten years if . . . either of the high contracting parties" should find that its purpose "has not been fully accomplished." [37]

The treaty was ratified by the United States Senate in May, 1916. It is still in force and American marines still occupy Haiti. Credit for its acceptance by Haiti is not entirely due to the efforts of the Secretary of State, the Secretary of the Navy, and Admiral Caperton. Roger L. Farnham, Vice President of the National City Bank, was

[37] U. S. "Haiti Hearings" pp. 204–7.

"effectively instrumental in bringing about American intervention in Haiti," being transported in his goings and comings between New York and Port au Prince aboard vessels of the United States Navy.[38]

The Military Occupation

At the suggestion of Mr. Farnham of the National City Bank, and upon nomination of President Woodrow Wilson of the United States, the Haitian government appointed John Avery McIlheny of Louisiana as Financial Adviser under Article II of the new treaty. The Financial Adviser, nominally a Haitian official, proceeded to complete the conquest of Haiti by the National City Bank. In July, 1920, he notified the Haitian Government that he had "instructions from the Department of State" that Haiti must give "its immediate and formal approval" to an agreement providing for:

"(*1*) *A modification of the Bank Contract agreed upon by the Department of State and the National City Bank of New York.*

"(*2*) *Transfer of the National Bank of the Republic of Haiti to a new bank registered under the laws of Haiti to be known as the National Bank of the Republic of Haiti.*

"(*3*) *The execution of Article 15 of the Contract of*

[38] Johnson, "Self-Determining Haiti," p. 20.

Withdrawal, prohibiting the importation and exportation of non-Haitian money except that which might be necessary for the needs of commerce in the opinion of the Financial Adviser." [39]

The purpose of this new agreement arranged by the State Department and the National City Bank was to give the latter a monopoly on the financial life of Haiti. Haitians, Europeans, and even American business concerns protested against this arrangement on the ground that such an arrangement would "make all other bankers and merchants the humble tributaries" of the National City Bank. But the American Financial Adviser continued to press for the acceptance of this agreement by Haiti by withholding the salaries of Haitian officials "by order of the American minister." [40] Haiti protested to Washington against this action, but was informed by the State Department that salaries would be withheld until Haiti accepted the Financial Adviser's terms.[41]

While the Financial Adviser was riveting the economic control of the National City Bank over Haiti, the military authorities were fastening political control. Under the eyes of American marines Haiti adopted a new constitution on June 18, 1918, by which "all acts of the Government of the United States during its military occupation in Haiti

[39] "Nation," v. 111, p. 308.
[40] Johnson, supra, p. 44 ff.
[41] "New York Times," Sept. 20, 1920.

are ratified and confirmed." The new constitution also abolished one of Haiti's oldest safeguards, which provided that foreigners could not hold land.

Charges of brutality have been made against the American occupation in Haiti. Over 3,000 "practically unarmed Haitians" have been killed by American marines, according to one observer.[42] The U. S. Marine Corps Report gives the number of Haitians killed as 3,250—"killed either by marines or by the person of the gendarmerie of Haiti." [43] The work of building a highway from Port au Prince to Cape Haitien was in charge of an officer of marines, "who stands out even in that organization for his 'treat 'em rough' methods. He discovered the obsolete Haitian *corvée* and decided to enforce it with the most modern Marine efficiency. The *corvée,* or road law, in Haiti provided that each citizen should work a certain number of days on the public roads to keep them in condition, or pay a certain sum of money. . . . The Occupation seized men wherever it could find them, and no able-bodied Haitian was safe from such raids, which most closely resembled the African slave raids of past centuries. And slavery it was, though temporary. By day or by night, from the bosom of their families, from their little farms or while trudging peacefully on the country roads, Haitians were seized and forcibly taken to toil for months in far sections of the country. Those who protested or re-

[42] Johnson, supra, p. 12.

[43] U. S. Marine Corps, "Report on Haiti," p. 108.

sisted were beaten into submission. . . . Those attempting to escape were shot. . . ." [44]

These atrocities resulted in a brief revolt led by an educated and cultured Haitian, Charlemagne Peralte, who had been forced to work in convict clothes on the streets of Cape Haitien. The revolt was crushed and Charlemagne Peralte was killed. "Not in open fight, not in an attempt at his capture," but "while standing over his camp fire, he was shot in cold blood by an American Marine officer who stood concealed by the darkness, and who had reached the camp through bribery and trickery." [45] A protest lodged by prominent Haitians with the Senate Committee of Inquiry into the occupation of Haiti in 1921 declares that the American Occupation "is the most terrible régime of military autocracy which has ever been carried on in the name of the great American democracy.

"The Haitian people, during these past five years, has passed through such sacrifices, tortures, destructions, humiliations, and misery as have never before been known in the course of its unhappy history." [46] According to an American recently returning from a visit to Haiti in 1920, "if the United States should leave Haiti today, it would leave more than a thousand widows and orphans of its own making, more banditry than has existed for a century, resentment, hatred and despair in the heart of a

[44] Johnson, supra, p. 13.
[45] Johnson, supra, p. 14. U. S. Marine Corps, supra, pp. 70–2.
[46] U. S. "Haiti Hearings," pp. 10–33.

whole people, to say nothing of the irreparable injury to its own tradition as the defender of the rights of man." [47]

While these atrocities were going on, American business and finance were profiting by the Occupation. The advantages of the treaty were thus described to the Senate Committee which investigated the Occupation in 1921, by H. M. Pilkington, Vice President and Manager of the American Development Company of Haiti:

"I next made it my business to come in contact with what we might call the ruling or political class of the country (*Haiti*), *because, at basis, every industrial or other enterprise is fundamentally dependent upon the laws and the execution of those laws in whatever country may be concerned. The original financing of this Haitian-American Corporation was brought about and put to the public directly and definitely upon assurance in Washington, by competent people and competent officials, that the treaty between the United States and Haiti was, in fact, to be a living thing. The largest feature in the floating of the securities of this company . . . was predicated, one might say, wholly as to security, upon the implied bona fides of the United States in carrying out this treaty,—the basis of which was security for foreign capital."* [48]

The National City Bank continued to tighten its "economic stranglehold" on the little republic. On June 22,

[47] Johnson, supra, p. 19.
[48] U. S. "Haiti Hearings," p. 789.

1920, the National Railroad of Haiti, comprising almost the entire railway system of the island, went into bankruptcy as a result of the failure of the Haitian Government to pay the interest and sinking fund charges on outstanding bonds. The concession was held by a syndicate of which Roger L. Farnham was president and which was financed by the National City Bank. When the road failed, the United States federal courts appointed Roger L. Farnham receiver.[49]

On March 28, 1917, Haiti and the United States signed a protocol extending the 1915 treaty for twenty years, and stating that there was "urgent necessity for a loan for a period of more than ten years." [50] Two years later, by a protocol signed on October 3, 1919, Haiti agreed to seek a national loan of $40,000,000 for thirty years. The revenues to secure this loan were to be collected by officers nominated by the United States even after the expiration of the 1915 treaty.[51] Early in 1922 the American financial adviser in Haiti, the National City Bank, the Haitian-American Sugar Corporation and the West Indies Trading Company began negotiations for a loan to Haiti. In March the financial adviser, McIlheny, informed the Senate Committee investigating Haitian affairs that three companies were bidding to float this loan, specifying the National City Bank, Speyer & Co., and Lee, Higginson &

[49] "New York World," Feb. 19, 1924, p. 3. U. S. "Haiti Hearings," p. 121.

[50] U. S. "Treaties, Conventions, etc.," v. 3, p. 2678.

[51] Ibid., pp. 2678–82.

Co.[52] This throws an interesting sidelight on the technique of diplomacy, in view of the facts that the National City Bank had a monopoly on Haitian financing, and that McIlheny had been appointed by President Wilson at the suggestion of a National City Bank official. The appearance of throwing the proposed Haitian loan open to competition was continued in September, when Acting Secretary of State William Phillips formally invited American bankers to bid for a $16,000,000 loan. The loan was being floated, technically, by Haiti, and Haiti was to be responsible for it; nevertheless the bankers were asked to send their bids not to the Haitian Government, but to the American financial adviser through the Division of Latin-American Affairs of the State Department at Washington.[53] The bonds were to be secured by a first lien on Haiti's internal revenue and a second lien on its customs —both sources of income controlled by Americans. The loan was the first block of the $40,000,000 loan provided for by the 1919 protocol. Whatever bids may have been offered, needless to say the concession to float the loan was obtained by the National City Company—a subsidiary of the National City Bank.[54]

The bonds were offered in the New York market in October, and among the sales literature was a letter from McIlheny. The letter emphasized that the bonds would be secured by Haiti's internal revenues and customs; that the

[52] "New York Times," March 17, 1922, p. 30:5.
[53] "New York Times," Sept. 13, 1922, p. 30:2.
[54] Ibid., Sept. 29, 1922.

1915 treaty, running to 1936, gives the United States the power to nominate the customs receiver and the financial adviser; that the 1919 protocol gives the United States the power to appoint the collector of the revenues securing the 1922 loan even after the treaty of 1915 expires; and that the United States controls the increase of Haitian debts and the reduction of its customs.[55] On October 11, when the contract for the $16,000,000 loan was signed, McIlheny resigned as Haiti's financial adviser. President Harding appointed another American—John L. Hord—as his successor.[56] In addition to an American minister, an American financial adviser, an American receiver-general of customs and American marines, Haiti was saddled from time to time with special military envoys to force through important plans for the State Department and the American bankers. In September, 1920, when Haiti objected to National City Bank control of the Haitian National Bank, Washington sent Admiral Knapp to liquidate the conflict. His mission was intended to be secret; it became public only as a result of Senator Harding's pre-election attacks on the Wilson administration. Admiral Knapp was vested with powers superior to those of the American minister in Haiti.[57]

In the spring of the following year, when Harding became president, the supreme American official in Haiti was a high commissioner—a title used frequently for pro-

[55] Ibid., Oct. 9, 1922.
[56] Ibid., Apr. 18, 1923.
[57] "New York Times," Sept. 21, 1920.

consuls of the British Empire. This high commissioner was Brigadier-General John H. Russell of the United States Marine Corps. His mission, Secretary of State Hughes explained, was to put the 1915 treaty into effect.[58] General Russell, acting under instructions from Secretary of the Navy Denby, established court martial for civilians and promulgated a law of lese-majesty. On May 26 he issued an order to Haitians which declared that speeches and writings which "reflect adversely upon the United States forces in Haiti, or tend to stir up agitation against the United States officials, or the president of Haiti or the Haitian government" are "prohibited, and offenders against this order will be brought to trial before a military tribunal." [59] In August, 1921, three Haitian journalists were arrested and court-martialed for criticising the American occupation in violation of General Russell's order.[60]

Further steps to bring Haiti under American economic control were taken in 1924, when the Haitian Council of State created an Internal Bureau of Revenue to collect all taxes except customs duties. This bureau is to be under the supervision of the American receiver-general appointed under the treaty of 1915, who is to appoint another American as head of the new bureau. On June 18, 1924, the State Department at Washington announced the appointment of Dr. William E. Dunn, acting commercial

[58] Ibid., Apr. 25, 1921, p. 16:7.
[59] Ibid., June 14, 1921.
[60] Ibid., Aug. 29, 1921, p. 25:3.

attaché of the American Embassy at Lima, as director of the Bureau of Revenue.[61]

Ludwell Denny's "We Fight for Oil" (Alfred A. Knopf 1928) is the most recent and comprehensive as well as the most readable account of the world oil situation. It fully sets forth the place of oil in present-day American policy.

[61] "Current History Magazine," V. 20, p. 845.

NOTES TO CHAPTER IV

SOME of the important war loans floated in the United States in the year beginning September 1915, were, as listed by Williams, Bullock and Tucker, previously cited:

Rothschild loan	$43 million
French loan	25
Anglo-French	500
Eight British banks	50
French Government	94
English Two-Year	250
	$962 million

All, save the Anglo-French loan, were amply secured by collateral. From the beginning of the War to the end of 1914, some $400 million worth of American securities owned abroad were resold to Americans. Up to Jan. 31, 1917, railroad securities had been resold to the extent of $1,520 million, and other securities to $304 million.

The principal items of change between January 1914 and January 1917 in America's relations to the world as regards long-term investments, are summarized in the following table:

In Millions	
Loans to foreign countries	$2,375
Own railroad securities returned	1,615
Others	304
Deposits by Americans in London	100
	$4,394

"American Prosperity: Its Causes and Consequences," by Paul M. Mazur (The Viking Press, 1928), remains the most penetrating and enlightening analysis of the post-War evolution of American business seen strictly as a problem in merchandizing.

The growth of the American merchant marine as a result of the War is strikingly shown in the following table by E. S. Gregg, published in "Recent Economic Changes in the United States," a report of the Committee on Recent Economic Changes of the President's Conference on Unemployment, Herbert Hoover, Chairman (McGraw-Hill Book Co., 1929.):

Steel and Iron Steam and Motor Ships
(excluding Lake Tonnage)
(100 Gross Tons and Over)
(millions of gross tons as of June 30)

Country	1914	1928
Great Britain and Ireland	18.9	19.7
British Dominion	1.4	2.4
United States	1.8	10.9

Country	1914	1928
Italy	2.5	3.3
Germany	5.1	3.7
France	1.9	3.3
Holland	1.5	2.8
Scandinavia	3.7	5.4
Japan	1.6	4.0
Other	4.1	6.1
	42.5	61.6

NOTES TO CHAPTER V

"THE Inter-Ally Debts, an Analysis of War and Post-War Finance," by Harvey E. Fisk (Bankers Trust Company, New York, 1924), is a work of marvelous thoroughness and courage. It treats not only of the debts but of every phase of their origin. It is really a comprehensive study of the entire cost of the War, with the virtue, almost unique among such studies, of consistently reducing its figures to a 1913 standard of purchasing power. Its courage is shown, not only in the crushing amount of labor involved, but especially in its daring to make bold estimates where exact information is lacking. On this unsung masterpiece I have depended for much information in this chapter and that preceding.

The following tables from Mr. Fisk's book, cited above, give a striking picture of the conditions of post-War Europe. In reading them, it should be borne in mind that they represent Europe's condition after four or five years of reconstruction, and that these nations would have had a normal expectancy of wealth increase of 20% or more had there been no war.

NATIONAL WEALTH

ALLIED AND ASSOCIATED POWERS AND CENTRAL POWERS
(In "1913" *dollars*—000,000 omitted)

NATIONS	Population 1914 In Millions	PRE-WAR WEALTH		Population 1923 In Millions	POST-WAR WEALTH	
		Amt.	Per Capita Actual Figures		Amt.	Per Capita Actual Figures
ALLIED AND ASSOCIATED POWERS						
British Empire						
Great Britain	46	70,000	*1,521.74*	47	70,000	*1,489.36*
Australia	5	8,600	*1,720.00*	5	9,000	*1,800.00*
Canada	8	14,650	*1,831.25*	9	15,000	*1,666.67*
India	244	30,000	*122.95*	247	35,000	*141.70*
New Zealand	1	1,860	*1,860.00*	1	2,000	*2,000.00*
Union South Africa	6	5,000	*833.34*	7	6,000	*857.14*
Crown Colonies, Protectorates, etc.	38	10,000	*263.16*	40	*12,000*	*300.00*
Total British Empire	348	140,110	[a] *402.61*	356	149,000	[b] *418.54*
Belgium	8	5,750	*718.75*	7	5,000	*714.28*
France	40	57,900	*1,447.50*	39	57,900	*1,484.61*
Greece	5	2,750	*550.00*	5	2,500	*550.00*
Italy	36	21,800	*605.55*	40	21,250	*531.25*
Japan	53	11,650	*220.07*	56	15,000	*267.86*
Portugal	6	2,400	*400.00*	6	2,400	*400.00*
Rumania	7	3,500	*500.00*	17	10,000	*588.23*
Russia	174	58,400	*335.65*	132	45,000	*340.91*
Serbia	5	2,300	*460.00*	[d] 11	5,500	*500.00*
United States	98	200,000	*2,061.85*	110	230,000	*2,090.91*

NATIONAL WEALTH

Allied and Associated Powers and Central Powers
(In "1913" *dollars*—000,000 omitted)

Total Allied and Associated Powers	780	506,560	*649.43*	779	543,550	*697.75*
Central Powers						
Austria-Hungary	50	30,000	*600.00*	[c] 27	14,000	*518.51*
Bulgaria	5	2.500	*500.00*	5	2,500	*500.00*
Germany	68	80,500	*1,183.82*	61	55,000	*901.64*
Turkey	21	10,500	*500.00*	8	4,000	*500.00*
Total Central Powers	144	123,500	*857.63*	101	75,500	*747.52*
Grand Total	924	630,060	*681.88*	880	619,050	*703.46*

[a] Per capita figure excluding India, $1,058.75.
[b] Per capita figure excluding India, $1,046.04.
[c] Successor states: Austria, Hungary, Czecho-Slovakia.
[d] Serb-Croat-Slovene State.

NATIONAL INCOME

ALLIED AND ASSOCIATED POWERS AND CENTRAL POWERS
(In "1913" *dollars*—000,000 omitted)

Nations	Population 1914 In Millions	Pre-War Income		Population 1922 In Millions	Post-War Income	
		Amt.	Per Capita Actual Figures		Amt.	Per Capita Actual Figures
Allied and Associated Powers						
British Empire						
Great Britain	46	10,900	*236.95*	47	10,000	*212.76*
Australia	5	1,300	*260.00*	5	1,300	*260.00*
Canada	8	2,000	*250.00*	9	2,400	*266.67*
India	244	3,000	*12.20*	247	3,500	*14.17*
New Zealand	1	300	*300.00*	1	360	*360.00*
Union South Africa	6	800	*133.33*	7	900	*128.57*
Crown Colonies, Protectorates, etc. .	38	1,500	*39.47*	40	1,500	*37.50*
Total British Empire ...	348	19,800	[a] *56.90*	356	19,960	[b] *56.07*
Belgium	8	1,100	*137.50*	7	900	*128.57*
France	40	7,300	*182.50*	39	7,000	*179.49*
Greece	5	330	*66.00*	5	300	*60.00*
Italy	36	3,900	*108.33*	40	3,400	*85.00*
Japan	53	1,600	*30.19*	56	2,000	*35.71*
Portugal	6	240	*40.00*	6	240	*40.00*
Rumania	7	350	*50.00*	17	1,000	*58.82*
Russia	174	7,500	*43.10*	132	5,600	*42.10*
Serbia	5	230	*46.00*	[a] 11	550	*50.00*
United States .	98	34,400	*351.02*	110	31,000	*281.82*

NATIONAL INCOME
Allied and Associated Powers and Central Powers
(In "1913" *dollars*—000,000 omitted)

Total Allied and associated Powers	780	76,750	*98.39*	779	71,950	*92.36*
Central Powers						
Austria-Hungary	50	4,500	*90.00*	[c] 27	2,100	*77.78*
Bulgaria	5	250	*50.00*	5	250	*50.00*
Germany	68	10,500	*154.41*	61	7,000	*114.75*
Turkey	21	1,050	*50.00*	8	400	*50.00*
Total Central Powers	144	16,300	*113.19*	101	9,750	*96.53*
Grand Total	924	93,050	*100.70*	880	81,700	*92.84*

[a] Per capita figures excluding India, $161.54.
[b] Per capita figures excluding India, $151.01.
[c] Successor States:—Austria, Hungary, Czecho-Slovakia.
[d] Serb-Croat-Slovene State.

Mr. Fisk reckons the national wealth of these nations on a basis of current productive capacity. But it should be remembered that much of the income derived from the national productive plant is earmarked for the absolutely unproductive purposes of the national debt. How this fact decreases the real income of the former belligerent nations is seen in the following table, drawn up by the Foreign Trade Securities Company, Ltd.

	Wealth	(in dollars)	Debt
United States	2,918		155
Great Britain	2,203		835
France	1,472		457
Germany	1,195		407
Italy	633		109
Austria	523		53
Hungary	371		45

The impressive feature of this table is not the gross amount of wealth possessed by Americans, but their relative freedom from debt. Of the $3,000 owned, on an average reckoning, by each American man, woman and baby, only 5% was claimed by the national debt; in Great Britain the national debt claimed 40%, in France about 30%, in Germany about 34%.

Frank A. Vanderlip's little book, "What Happened in Europe," published as a result of his visit to Europe in the spring of 1919, is even today a document of unusual value. Mr. Vanderlip was at the time president of the National City Bank. Alone of all American bankers, it would seem, he immediately understood that America must henceforth play an active and dominating part in European history. A compendium of quotations from this book and from contemporary criticisms of it would constitute a lively illustration of the distinction which the present volume seeks

to draw between the imperial and the small-trade minds in the American transition phase.

The proceedings of the International Chamber of Commerce in Geneva in May 1927 afford the most comprehensive picture of the trade barriers erected by supernationalistic Europe since the War. Many amusing examples are given in Dr. Julius Klein's "Frontiers of Trade" (The Century Company, 1929).

NOTES TO CHAPTER VI

HARVEY E. FISK, cited above, accepts the figure of $68 million as representing the total of American pre-War investments in Russia. But the estimates vary astonishingly. It is surprising that America has made no official effort to determine the true amount.

Trade between the United States and Soviet Russia totalled $503 million in the five years ending 1928, more than three times as much as the trade between the United States and Czarist Russia before the War. The United States supplied 22% of the Soviet imports in this period. The Soviets' five-year development plan inaugurated in 1929 calls for imports of $3,200 million. To what extent this part of the plan will be carried out and how orders will be allocated depends partly on the securing of long term credits and the reëstablishment of normal relations with other countries.

The extent of American-Soviet coöperation is suggested by Saul G. Bron, Chairman of the Board of Directors of the Amtorg Trading Corporation, writing in the June 1929 number of the "Economic Review of the Soviet Union":

"Purchases of industrial machinery by the Amtorg Trading Corporation alone, which amounted to $2,500,000

two years ago, exceeded $11,000,000 last year and amounted to $9,160,000 for the six months ending March 31, 1929. There are dozens of Soviet industries which, through the medium of the Amtorg Trading Corporation, enter the American market every year to make purchases of machinery. American equipment is to be found in all parts of the Soviet Union; in the Ukraine where the Dnieper power plant, to have a capacity of 800,000 horse-power, is being constructed; in power stations and machine-building plants in the Leningrad district; in the Baku and Grozny oil industries; in the Siberian gold-fields; on the Turkestan-Siberian railway construction; in radio broadcasting stations; in canneries near Vladivostok on the Pacific Coast; in the coal mines of the Donetz Basin in the Ukraine, of the Kuznetz Basin in Siberia and the Podmoskovny Basin near Moscow. American calculating machinery and other office equipment will be found in the Central Statistical Administration and other offices in Moscow, as well as in a large number of provincial cities. Hundreds of Soviet factories are now using American machinery, where there were only dozens five or six years ago.

"During the past two years, however, American firms for the first time have begun to play an important rôle as technical advisors to Soviet industry. Contracts for technical assistance, largely in the construction of new industrial enterprises in the Soviet Union have been concluded with important American engineering and manufacturing companies, such as the Radio Corporation of America,

General Electric Company, DuPont de Nemours, Nitrogen Engineering Company, Hugh L. Cooper and Co., Stuart, James & Cooke, Freyn Engineering Company, Albert Kahn and Frank Chase. It may be expected that this important development in Soviet-American economic relations will do much to enhance the position of American machinery on the Soviet market.

"Large scale credits up to a period of five years are being granted by an increasing number of concerns. The $26,000,000 contract with the International General Electric Company is the most outstanding illustration of this tendency.

"In considering the scope of trade relations between the Soviet Union and the United States mention should also be made of the contracts concluded with the Standard Oil Company of New York and the Vacuum Oil Company, calling for the delivery of Soviet oil products, to the value of $10,000,000 annually, to the far and near eastern markets of these companies.

"Our business dealings in the United States involve an ever-widening circle of American firms, now numbering over 2,000, among which are the leaders in their particular industrial fields."

Writing of the Soviet contract with Henry Ford, Mr. Bron says (in the July issue):

"This contract is the result of the recent decision of the Soviet Government to build an automobile factory in the U.S.S.R. to produce 100,000 cars per annum.

"The contract is for a term of nine years and provides for technical coöperation between the Ford Motor Company and the Soviet Automobile Trust for five years after the completion of the factory, which is expected to be put in operation at full capacity within four years. Ford engineers will visit the Soviet Union from time to time as the need for their assistance may arise. The Soviet automobile works will be located at Nizhni-Novgorod on the Volga River and will produce more trucks than passenger cars.

"Until this plant is completed the demand for cars in the Soviet Union will be supplied by the domestic production and chiefly by imports from abroad. In particular, we shall purchase from the Ford Motor Company during the next four years about $30,000,000 worth of cars and parts."

The number of American firms giving technical assistance, sometimes involving patent concessions and large orders for materials, is measured by the dozens and is constantly growing.

"More than half the total amount must be written off." Harvey E. Fisk in the work cited wrote off $750 million of American investments in Mexico as worthless, in estimating the value of American investments abroad. This represents but part of the loss suffered by America because of the anarchy and poverty of a neighbor.

"Both [the United States and Russia] are working toward the same aim—the cheapening of production and

increase of consumption by the scientific application of machinery on the largest possible scale." For example, Henry Ford, most typical of Americans in the scope and daring of his imagination concerning the machine age, favors a national power monopoly. "I only wish," he said, "that there actually were a power trust, a central directing organization for the development and use of every power source in the country, tied into one national power system for the service of the whole country." Lenin said almost these words in 1920. Ford came to his view as a technician; certainly not from any theoretic fondness for Socialism. Under the pressure of economic forces and opportunities he has in himself reproduced the evolution of America from an isolated agrarian nation to an empire. He, like America, started half a century ago as a small merchant of farmer stock, became a big manufacturer, and eventually turned imperialist. Like America, he would never admit it.

NOTES TO CHAPTER VII

PROFESSOR TENNEY FRANK'S "A History of Rome" (Henry Holt and Company, 1923) suggests some attractive parallels between recent American history and that of certain periods in ancient Rome. The picture which Professor Frank draws of Rome as a young and hustling republic sending its armies across the seas to rescue the free nations of the old world from a militaristic tyrant, organizing a league of nations to preserve peace, and then, refusing annexations or indemnities but laden with souvenirs, returning to its ancient isolation—all this teases the reader's mind to prophecy. From this book the reader may acquire, if not auguries of future events, certainly a sense of the fluidity of political forms within the reality of power. The volume is the product of broad scholarship and much original research.

Alfred Zimmern's "The Third British Empire" (Oxford University Press, 1927) is a study of a modern empire in such a fluid state. It is a most satisfactory handbook.

Dr. Julius Klein's "Frontiers of Trade" (The Century Company, 1929) contains some of the best popular essays

on American foreign trade and investment yet published. In particular, it gives the reader a lively sense of the intricate interrelationship of the nations of the modern world which may well be contrasted with the mediæval localism of their national ideas.

As to the ethics of modern international trade on the imperial scale, the author would like to call attention to a well known but little studied treatise on the subject, The Sermon on the Mount.

NOTES TO CHAPTER VIII

THE United States has made certain exceptions to her policy of permitting American capital to flow where it would. She has, for example, forbidden or discouraged American investments to nations which have defaulted or failed to fund their debt obligation to the United States, or to enterprises aiming to establish raw material monopolies detrimental to American interests. But in general she has not been worried by frequent assertions that American money was being used to promote industries abroad which might compete with American exports. America's commercial policy, in contrast to her political policy, is mature and long-sighted.

A detailed study of the conflicting American interests involved in the question of Cuban sugar as affected by tariff policy is contained in the monthly report on business conditions of the National City Bank for June 1929. It has been charged that this bank's opposition to a high sugar tariff is due to its large investments in Cuban sugar properties. This consideration should only add more weight to the arguments advanced by the bank. It is only by the adjusting of material interests, one with another, that a stable imperial policy will be achieved.

NOTES TO CHAPTER X

EDGAR A. MOWRER in "This American World" (J. H. Sears and Company, 1928) says:

"The European industrialist cannot but see that the spread of Americanism means the loss of his social and the diminution of his economic superiority over his workers, who will end by demanding an American standard of living. In the same way, to the former ruling class Americanism forebodes the hopelessness of an attempt to recover the lost political supremacy."

Mr. Mowrer, from his long expericence with Europeans, gives many a piquant example of what Americanism means in their daily lives.

One of the most serene of world observers, Bertrand Russell, has written in "Prospects of Industrial Civilization" a challenging analysis of what Americanism may mean to Europe:

"In spite of an overwhelming influx of foreigners of all sorts . . . it has been found possible to produce a degree of national consciousness that enabled America to put forth a first-class effort in the war, and it is enabling her now to make a bid for world empire with more hope for

success than attended the previous efforts of Spain, France or Germany.

"America may not, as yet, consciously desire such a position, but no nation with sufficient resources can long resist the attempt. And the resources of America are more adequate than those of any previous aspirant to universal hegemony. First of all, America is self-supporting in all the necessaries of peace and war; both industry and agriculture could be preserved in almost complete efficiency without commerce with any other continent. Secondly, America has the largest white population of any state except Russia, and its population is superlatively skilled, energetic and physically courageous. Thirdly, Canada would have to side with America in any serious war, if only for reasons of self-preservation; and Mexico would be unable to refuse access to its mineral resources. Therefore the whole of North America must be counted as belonging to the United States in considering the possibilities of a world war. Fourthly, America could, after the outbreak of the war, build a sufficiently powerful navy to defeat any possible hostile naval combination. Fifthly, all Europe is in America's debt and we in England are dependent upon America for our very existence, owing to our need of raw cotton and Canadian wheat. Lastly, the Americans surpass even the British in sagacity, apparent moderation and the skillful use of hypocrisy by which even themselves are deceived. Against such a combination of resources no existing state could hope to prove victorious."

The question of how far the recent expansion of American wealth is a capitalization of expectancy of future profits, is one which merits more study than economists have yet given it. Valuable hints may be gained from Dr. Benjamin M. Anderson's penetrating analyses in the various issues of the Chase Economic Bulletin, already cited. Special reference may be made to Vol. VI, No. 3, "Bank Money and the Capital Supply," and to Vol. IX, No. 1, "Two New Eras Compared." In any case it is beyond doubt that hope, besides faith and charity, is one of the substantial foundations of national wealth.

NOTES TO CHAPTER XI

"THE Balance of International Payments of the United States," by Ray Hall, Assistant Chief, Finance and Investment Division, United States Department of Commerce, which is the text for this chapter, may be obtained free upon application upon publication each June. The pamphlet is by no means only a technical treatise. It is, of course, a government publication and occasionally a paragraph slips in presenting data to support some official American policy. But the entire evidence is laid before the reader in a form which any intelligent person can understand. It forms a most readable report of the life and habits of *homo americanus.*

It should be said in general, concerning the publications of the United States Department of Commerce, which was brought to its present point of usefulness by Herbert Hoover, that they are by all odds the best of their kind published in the world today. The admirable British trade publications, perhaps superior in the accuracy of their source material, are not comparable in objectivity and clearness—possibly because the British official trade representative is too conscious of local political considerations.

Unquestionably the Department of Commerce has a mature understanding of America's present imperial posi-

tion. It reports the progress of the entire world objectively, impartially, clearly. If a Pole in Warsaw, a Syrian in Damascus, an Italian in Rome, wishes recent, accurate and intelligible information about his country, he must go to Washington.

THE END

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